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The Political in Political Economy: Historicising the Great Crisis of Spanish Residential Capitalism

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A thesis submitted in partial fulfilment of the
requirements for the degree of Doctor of Philosophy in
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Declaration

This thesis is submitted to the University of Warwick in support of my application for the degree of Doctor of Philosophy. It has been composed by myself and has not been submitted in any previous application for any degree

Abstract

This thesis offers a novel interpretation of the Spanish housing crash, the most extreme instance of a housing boom and bust in contemporary capitalism, developing a narrative that stresses the historical specificity of this experience. Whereas neoliberal approaches have stressed the role of political ‘distortions’ to an otherwise perfect market economy (e.g. corruption, profligacy, etc.), critical approaches have responded to this framing by extricating political factors from their analyses altogether: either by representing the Spanish crash as the product of an external economic imbalance, or by reducing the Spanish crisis to a generic outcome of the laws of capital accumulation. The purpose of this thesis is to reclaim the political away from neoliberal approaches in order to flesh out an alternative critical narrative of the crash. To do so, I draw from the tradition of political Marxism, an approach that stresses the historicity of political dynamics at the expense of structural laws of causation. Contra the existing literature, I argue that the Spanish experience was the result of an interplay between two historically-specific processes: (1) the layering of a particular apparatus of residential provision to address a near-perennial housing deficit, and (2) the evolution of the clientelist nexus binding together the political class and the propertied classes. The thesis demonstrates how these processes are the consequence of a long trail of sedimented political agencies that stretch back into the nineteenth century. This history is teased out in the empirical chapters of the thesis, which are structured as historical studies into different themes around the Spanish property market: the peculiarity of Spain’s urban planning practices; a housing system dominated by ownership and mass speculation; a highly politicised financial system; and widespread patterns of political corruption in urban governance.

Abbreviations

ACS	Actividades de Construcción y Servicios
AHE	Asociación Hipotecaria Española
APCE	Asociación de Promotores Constructores de España
BBV	Banco Bilbao Vizcaya
BBVA	Banco Bilbao Vizcaya Argentaria
BCI	Banco de Crédito Industrial
BCH	Banco Central Hispano
BHE	Banco Hipotecario de España
BOE	Boletín Oficial del Estado
BMP	Barcelona Meeting Point
CAM	Caja de Ahorros del Mediterráneo
CGT	Confederación General de Trabajo
CiU	Convergència i Unió
ECB	European Central Bank
EMU	European Monetary Union
ERM	(European) Exchange Rate Mechanism
EU	European Union
FCC	Fomento de Construcciones y Contratas
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística
INV	Instituto Nacional de Vivienda
ISI	Import Substitution Industrialisation
NO-DO	Noticiarios y Documentales
OECD	Organisation for Economic Cooperation and Development
OHL	Obrascón Huarte Laín
PAH	Plataforma de Afectados por la Hipoteca
PCE	Partido Comunista de España
PP	Partido Popular
PSOE	Partido Socialista Obrero Español
SIMA	Salón Inmobiliario de Madrid
SNCA	Sindicato Nacional de Crédito Agrícola
UGT	Unión General de Trabajadores

Introduction

In a society as propertied as the Spanish, the loss of one's home tends to be experienced as a trauma, coupled with feelings of having failed as a citizen: 'evictions, in subjective terms, mean a lot more than simply losing a property. They are a kind of civic death, a condemnation to social exclusion' (Coq-Huelva, 2015). The design of the housing market ensures such reactions. Consider the case of Igone and Antonio, a young couple with four children, who upon losing their jobs became unable to meet their mortgage payments. The couple found that their bank, the all-powerful Santander, left them in the dark about what fate awaited them: 'our local branch gives us vague answers as the bank sends threatening letters from Madrid', Igone stated to *El País* newspaper (Landa, 2012). In the years preceding the crash, it had become common for mortgage providers to abuse their debtors' lack of technical knowledge, concealing abusive clauses in their contracts and transferring upon them a disproportionate amount of risk – a lack of transparency that would continue once their debtors could no longer face their debt. Legally, the bank had the power to swiftly repossess the property and auction it off to the highest bidder (a process that would often occur unbeknownst to the occupiers), and then proceed to evict them (Alemany & Colau, 2012:181). To make things worse, if evicted, Antonio, Igone, and their children, would not only face the prospect of being homeless, but they would also have to continue carrying the burden of their negative equity: the collapse of house prices meant that their home no longer covered the original mortgage debt, and Spanish mortgage laws did not contemplate the prospect of limited liability. These extant debts could ripple out to engulf their elderly relatives, such as Igone's 80-year old grandmother, who had put down her own home as collateral: 'I don't want them to touch my grandmother. Her house is already paid for, she shouldn't end up on the street for being my guarantor' (quoted in Landa, 2012).

At the height of the crisis, more than 500 families were being evicted on a daily basis for not meeting their housing costs (BBC, 2012a). Alongside this sat the largest rate of vacancy in Europe – between 5 and 6 million houses, nothing less than 20% of the entire Spanish housing stock. This paradox begs the question: if not for people to live in, what were so many houses built for, and for whom? This thesis traces the origin story of the Spanish crash, explaining how the shape of the housing market was built upon a long history of political struggles.

The political nature of housing is patent in the struggles that unfolded in the ruins of Spanish capitalism. Like many others in their situation, Antonio and Igone turned to the activists of *Plataforma de Afectados por la Hipoteca* (PAH) for legal advice, a process that inflected the language of their struggle with political overtones: ‘Housing is a basic right. [...] The mortgage law is obsolete and needs to be adapted to a time of crisis’ (quoted in Landa, 2012). These patterns of mass dispossession struck a nerve in Spanish society, to the point that the eviction crisis became the main battleground against austerity after the mass protests of 2011. Under the leadership of PAH, grassroots resistance became more militant. Protestors would gather outside homes expecting evictions to block the way of the bailiffs, who often required the assistance of riot vans to enforce these procedures. PAH activists would regularly barricade themselves inside these properties with the occupiers, a strategy to which the police would respond by axing down the door or by busting it open with a battering ram. But even when the police succeeded in breaking in and physically removing everyone inside, the home in question would sometimes be squatted right away. The point of these acts of sabotage was to force the legal suspension of an eviction, in which case a window of time would open up – usually around four months – to put pressure on public authorities, all in an effort to force local councils to find a more humane solution for the dispossessed (Alemany & Colau, 2012:181-3).

Despite an evident politicisation of housing issues in the wake of the crisis, the way in which the Spanish housing system has been shaped by political antagonisms in the path to the crisis is not as apparent in existing narratives of the crash. In theory, a focus on ‘the political’ is foundational to a discipline like *political* economy, which defines itself against the antiseptic modelling of economics. But in practice, the role of ‘the political’ in political economy is too often obscured by a focus on abstract economic forces. In the case of the literature on the Spanish crash, this is often a reaction to neoliberal accounts, which tend to frame the crisis as an outcome of political distortions of an otherwise perfect market economy. In response, critical narratives have tended to deflect causation from political determinacy to structural causes, either by pointing ‘upward’ – to the macroeconomic imbalances of the European Monetary Union – or ‘inward’ – to the internal logic of capital accumulation. The result are accounts that often render invisible the role of political agency as a vector of historical change. Paradoxically, this omission only serves to confirm the fatalist conclusions of neoliberals – that, indeed, there is no alternative – while surrendering the analysis of the political to their gaze.

Against this, the point of this thesis is to recast a critical narrative of the crash that is firmly grounded in ‘the political’, which is to say that it seeks to highlight how *power struggles between social actors give shape to social structures*. This is a broad concept that in this thesis manifests in three different ways: (1) the political as *layered struggle*, (2) the political as *social conflict*, and (3) the political as the *everyday*.

TABLE 1. THE POLITICAL: A SYNOPSIS

The Political: the enactment of agency through power struggles over the shape of social structures

(1) <i>Layered Struggle</i>	(2) <i>Social Conflict</i>	(3) <i>Everyday</i>
Crystallisation of historically-situated struggles into lasting outcomes	Mostly organised collective struggles over the shape of institutions	Renegotiation of social structures at the level of daily practice/discourse

(1) The political as *layered struggle* focuses on the historicity of social structures, teasing out how they are created and shaped by historically-specific contingencies that may have lasting path-dependent effects. Its main purpose is to examine how the layering of past struggles shapes the terrain for the unfolding of the other two dimensions of the political. Given the *longue durée* scope of the analysis, this dimension of the political figures most prominently in this thesis. (2) The political as *social conflict* refers to processes of collective struggle, by the hand of collective subjects such as groups and classes. This dimension of the political mostly, though not only, refers to organised agencies that bear a specific relation to formal institutions: be it because they are trying to enforce, subvert, circumvent, or renegotiate existing social structures. (3) The political as the *everyday* realm traces power struggles all the way down to the reshaping of existing social structures by daily practices and discourses. This dimension of the political most often bears relation to informal institutions, and thus has a distinctive cultural flavour. Nevertheless, its purpose is to trace how social structures ‘react’ against agencies that seek to – once again – enforce, subvert, circumvent, or renegotiate social structures. Overall, these three dimensions of the political seek to capture how social structures evolve through the sedimentation of political agencies, rather than via the impersonal unfolding of their own internal logic.

0.1. The Case: Why it Matters

At the source of the Spanish debacle was the implosion of a property market that had driven much of the country's growth throughout the 2000s. Fuelled by European capital imports and record-low interest rates, in the decade preceding the crash the real-estate market boomed, with 9 million property transactions and the construction of 6 million new homes (von Zeschau, 2011). As long as it lasted, the property boom delivered positive rippling effects: 50% new job posts were created, the majority in the service and construction industries. House prices experienced a breathtaking 197% increase, which translated into a hefty boost of wealth for the 87% of households that owned their own homes – the largest rate of ownership in the OECD at the time (López & Rodríguez, 2011b). In these years, the Spanish economy was the posterchild of European neoliberalism: 'we have a lot to learn from the Spaniards when it comes to a smart and effective use of the opportunities offered by European integration', expressed a Commissioner as late as 2007. Or as the American magazine Newsweek put it: '[w]ith the economy booming – in stark contrast to the rest of Europe – [...] Spain is the new princely peacock, after being looked down on by the northern Europeans as a poor Mediterranean country' (McGuire & Radcliffe, 2004). Indeed, unlike other countries of the European south, up until the crash itself Spain exhibited current account surpluses and exultant levels of growth.

This only made the spectacular economic collapse that ensued more dramatic, shocking Europe and beyond. In the wake of the global financial crisis, the Spanish economy became responsible for half of all the job destruction in the European Union at large (Missé, 2009). At its peak (2013), unemployment stood at levels identical to those of Greece's battered economy: a general rate of 26% and an astronomical 56% amongst the youth (datosmacro.com). The Spanish economy, however, was six times larger than the Greek, making it an even greater cause for concern for their monetary partners. When fears of sovereign default loomed between 2010-2012, the prospect of the fourth economy of the Eurozone requiring a Greek-style bailout placed the European Monetary Union on the verge of collapse.

The sudden turn of fate of Spanish capitalism hinged upon an immense 'speculative bubble', a term that has gained wide currency in the Spanish imaginary ever since: 'Are we about to witness the burst of the superhero [film] bubble after years of disproportionate growth?' (Prieto, 2014). For the sake of analytic precision, I will try to 'deflate' the meaning of this term. *Speculation* refers to a specific investment

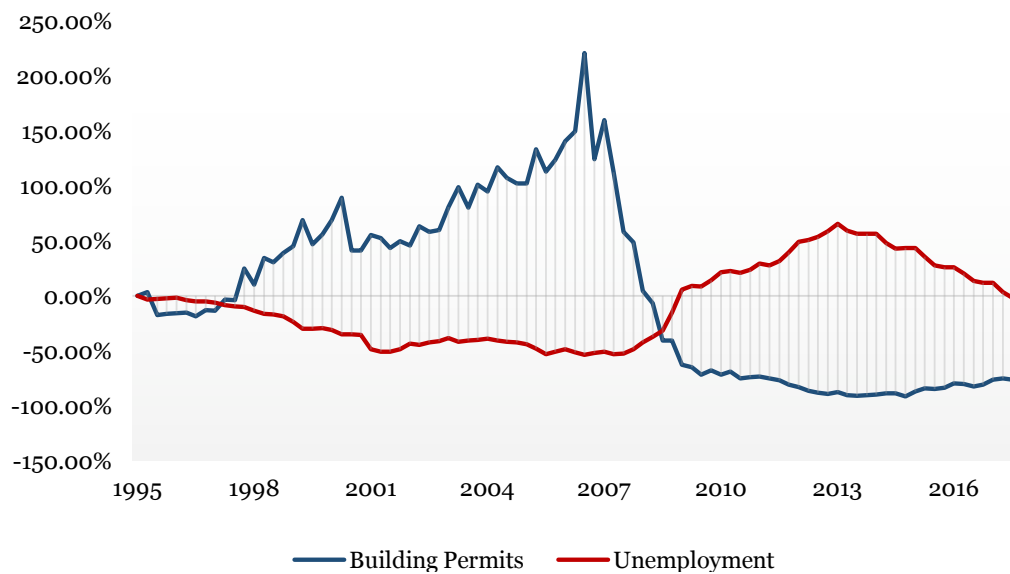
strategy which informs the acquisition of an asset (e.g. a house) only to profit from expected changes in the value of that asset. A *bubble* denotes a phase when patterns of speculation acquire a collective dimension and enter a self-reinforcing dynamic: e.g. the price increases attracting speculative investment are sustained because speculative investments are driving prices up – and so on (Knafo, 2009). Faith in continuing asset-price increases becomes essential to maintaining this spiral, a function that in Spain was carried out by economic authorities and media pundits, who repeated time and time again that ‘property prices are never going to go down’ (see Martín, 2015). Finance is also crucial, both in jumpstarting this process and for prolonging the demand for the speculative asset; a role that in Spain was fulfilled by cheap European capital and modern techniques of mortgage securitisation. Yet, sooner or later, the bubble always ‘bursts’ because the amount of new investment needed to sustain the same rate of price inflation increases exponentially over time, much like a pyramid scheme (Knafo, 2009). In other words, at some point there simply will not be enough capital to inject into the market, and the whole edifice will collapse like a house of cards.¹ This is what happened when home prices peaked in the summer of 2007: investors fled, and prices gained downward momentum. In less than two years, the real estate industry imploded, churning up millions of jobs in the process, mostly in the construction industry (Fig.1), and rendering many households unable to pay off their mortgage debts.

Speculative bubbles have become central to the study of political economy due to their increasing recurrence across global capitalism. This is traditionally associated with the expansion of finance in recent decades, a process often traced back to the exhaustion of the postwar cycle of industrialisation around the 1970s (Arrighi, 2005; Brenner, 2006; Foster, 2007). Following the crisis of ‘stagflation’ in these years, neoliberal strategies of deregulation, liberalisation, and privatisation were deployed to break the back of organised labour and restore the profitability of capital (Harvey, 2007). This

¹ This view is rather different to that of the neoliberal orthodoxy, according to which speculation is an inherently stabilising practice that contributes to formation of accurate price signals. For Milton Friedman, speculation is the noble pursuit of rational price returns: unsuccessful investors get weeded out by the market, successful ones ‘discover’ efficient prices and reveal them to the world (Watson, 2007:32). This view is built into modern financial economics, down to its very founding stone, Eugene Fama’s ‘efficient-market hypothesis’, or the notion that the price of a given financial asset condenses all relevant, generally available information. This way of looking at financial speculation carries an important implication: any notion of ‘market failure’ is conceptualised away from the start. Phenomena such as ‘bubble bursts’ are merely price corrections that happen to be more sudden than usual. Fama himself expressed incredulity towards the notion in the immediate aftermath of the global financial crisis: ‘I don’t even know what a bubble means. These words have become popular I don’t think they have any meaning’ (quoted in Mirowski, 2013:253). That being said, some orthodox neoliberals do concede the existence of such a thing as bubbles, but only to argue that these are the product of rational investors being misled by distortive incentives, almost invariably the result of state intervention (e.g. Garber, 1990).

process was coupled with an explosion in innovative financial practices, reorienting accumulation towards short-term speculative profits and increasingly away from the needs of the ‘productive’ economy (Stockhammer, 2004). This translated into a deepening of inequality, concentrating enormous cash pools in the hands of a global elite of rentiers, which were then funnelled offshore beyond the tax radar. These cash pools then became the basis of vast swarms of capital flows at the command of institutional investors (Lysandrou, 2011; Goda and Lysandrou, 2011). Ever since, the deployment of these swarms of capital for speculative ventures around the world has left a trail of destructive bubbles along their way.

FIG.1. RESIDENTIAL CONSTRUCTION VS. UNEMPLOYMENT IN SPAIN

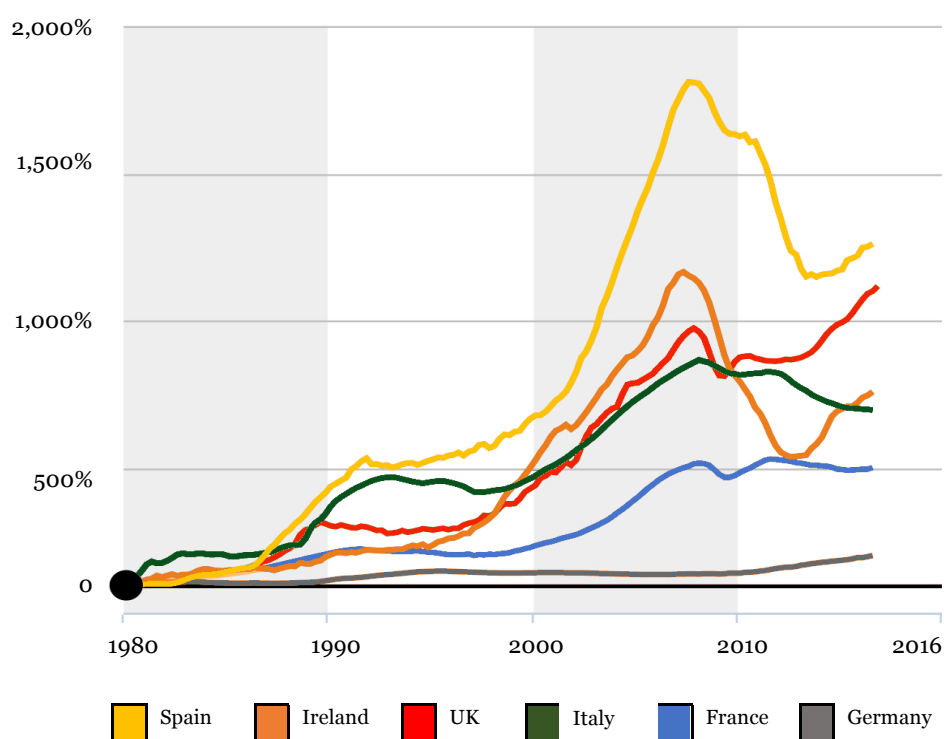


Source: INE, base=1990.

But beyond their recurrence, equally important to political economy is the fact that global capitalism has become increasingly dependent upon speculative bubbles for *growth*, a process in which housing has become central. To designate the breath-taking expansion of speculative finance and its colonisation of areas of the economy that were previously outside of its orbit, the term ‘financialisation’ has gained currency over the last decade or so (Krippner, 2005; Orhanghazi, 2008). The neoliberal dismantlement of Keynesian mechanisms of demand management (i.e. the old trade-off of high wages for consumer demand), was succeeded by a deepening of consumer credit to counter-act the effects of stagnating wages on consumption. The expansion of mortgage-backed debt has been central to this process, as home equity usually constitutes the most valuable asset that households can use to borrow against. This translated into an increasing demand for property, followed by an increase in house prices, and, in turn,

into an increase in the borrowing power of the home-owning layers (the so-called 'wealth effect'). By the late 1990s, states began to keep interest rates deliberately low in an attempt to exploit the bond between asset-price increases and disposable income. This gave rise to a new paradigm of demand management, sometimes referred to as 'asset-price Keynesianism' (Brenner, 2002, 2006), 'privatised Keynesianism' (Crouch, 2009), or 'house-price Keynesianism' (Watson, 2010). In any case, the result has been the historic integration of the everyday people, primary through their mortgage debts, into the circuits of mass speculation (Langley, 2009; Konings, 2009, 2011; Knafo, 2009).

FIG.2. GROWTH IN EUROPEAN HOUSE PRICES SINCE 1980



Source: The Economist House-Price Index, base=1980Q1.

Though arguably the literature on financialisation has been mostly focused on the Anglo-American experience, the Spanish property bubble of the 2000s represents what is perhaps the most extreme case of a real estate bubble to date (Fig.2), making the case important in its own terms.

0.2. The Problem: Research Puzzle and Questions

Neoliberal analysts have tended to look at the Spanish crisis through the prism of the Eurozone crisis of 2010-2012, situating the Spanish case within a broader crisis of the Eurozone's 'weakest links': the 'periphery', sometimes also identified by the unflattering acronym 'PIIGS' (Portugal, Italy, Ireland, Greece and Spain). Though each country is said to have an origin story of its own, the problems alluded to are always the same: an immature market economy distorted by political factors (e.g. excessive rigidity, fiscal indiscipline, corruption) (The Economist, 2010; JP Morgan, 2013; Alesina et al., 2017). In the specific case of Spain, a special emphasis is placed upon the dysfunctionality of a politically-controlled savings banking sector, the now notorious *cajas de ahorro*. The *cajas* are said to have pumped excessive credit into the property market just so that their political patrons could reap the electoral benefits of the bubble (Garicano, 2012; Royo, 2014). This analysis informed the 'austerity' reforms enacted at the height of the crisis and the abolition of the savings banks, transformed into fully private commercial banks for the sake of economic efficiency.

To challenge this neoliberal perspective, political economists have crafted two alternative narratives of the crash. (1) On the one hand, there are those who denounce the scapegoating of the PIIGS and seek to identify the causes of the crisis in external factors, namely, the macroeconomic imbalances occasioned by the Euro (e.g. Lucarelli, 2011; Lapavistas et al., 2012; Stockhammer, 2016). Whatever the exact interpretation, proponents of this narrative converge on the view that the structure of monetary integration made the countries of the periphery dependent upon the import of wholesale credit from the countries of the 'core' (a loose concept that usually boils down to 'Germany'). Thus, the formation of the Eurozone around the turn of the millennium resulted in a burst of cheap capital that flooded the economies of the periphery. The influx of wholesale credit from abroad spilled over into speculative ventures, occasioning the inflation of housing bubbles in countries like Spain or Ireland. (2) On the other hand, there are those who, instead of deflecting accusations of economic instability 'upward', they prefer to turn these 'inward', to the inherent contradictions of capital accumulation. The argument here is that the tendency toward speculative investments in the Spanish real estate sector can be traced to long-term industrial decline (e.g. López and Rodríguez, 2010; Delgado, 2011; Charnock et al., 2014). According to the theory of the 'spatial fix', whenever overaccumulation builds up in manufacturing, there is a tendency within capitalism to syphon capital out of this sector and pump it into the built environment instead. This transfusion of capital is

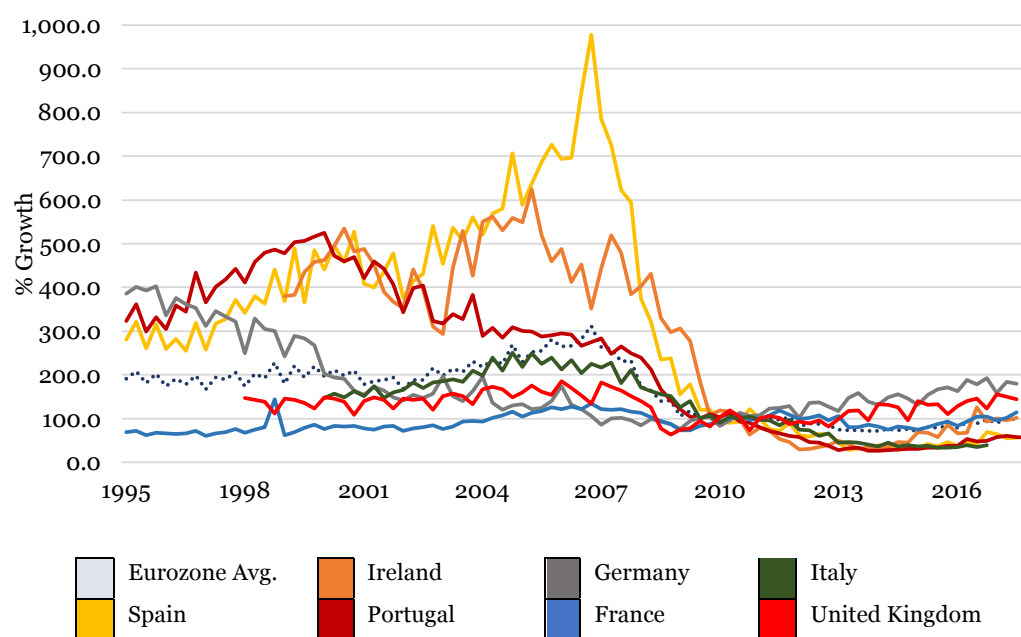
assisted by different scales of the state and by the financial sector. However, overaccumulation is bound to build up in the built environment too, leading to the emergence of destructive housing bubbles like the Spanish.

For all their successes in challenging neoliberal perspectives, these approaches also have their own analytical flaws. These can be summarised as an inability to grapple with the determinacy of the political, largely due to their emphasis on abstract structural mechanics of causation. Rather than historicising concrete patterns of political conflict and their institutional outcomes, these approaches tend to read from an abstract theoretical plane a number of conclusions about a specific social formation like the Spanish, but either without any substantial treatment of that social formation or by looking at historical evidence in a relatively ad-hoc manner. Though these approaches shall be dissected in greater depth in the next chapter, for now I shall point out their explanatory limits with a comparative perspective:

(1) Framing the Spanish crisis as the product of an external economic imbalance requires us to blur very diverse experiences into the aggregate category of the European ‘periphery’. Whereas this notion may work to explain the broadest regularities across these countries, such as the commercial deficits of the Mediterranean countries with the advent of the Euro, it also runs into problems when we start asking questions about the differential paths into the crisis of each one of these countries. If the periphery was truly struck by a single crisis, then why did Portugal slug into the crisis after a decade-long recession, while neighbouring Spain came crashing down from a decade-long economic boom? Of course, the main difference between these two countries was Spain’s massive property boom, a differential feature that core-periphery narratives tend to explain away with a one-size-fits-all explanation: during the 2000s, finance from the core flooded the economies of the periphery and inflated bubbles in the process. Yet if we zoom out of the macroscopic plane once again, we are confronted by some puzzling specificities of the Spanish bubble: (a) The timeline of the one-size-fits-all explanation has a telling flaw – while there is no doubt that European capital imports accelerated and magnified the growth in house prices, the start of the Spanish bubble predates the formation of the Eurozone itself. Its immediate origins date to a reform in land-use designations enacted in 1997-1998, commonly known as the ‘build-anywhere law’. This leads us to a second peculiarity: (b) the Spanish housing bubble was coupled with a unique wave of residential overproduction. Indeed, at its peak, Spain was building more homes than Germany, France and Italy combined – countries which together have a population

more than quadruple that of Spain (El País, 2005b). This raises further questions: most often, housing bubbles are sustained by an insufficient supply of homes to keep prices high (e.g. in the United Kingdom) (Watson, 2009). How, then, could Spain combine a house-price bubble with such a gigantic increase in residential supply?

FIG.3. GROWTH IN RESIDENTIAL BUILDING PERMITS ACROSS EUROPE

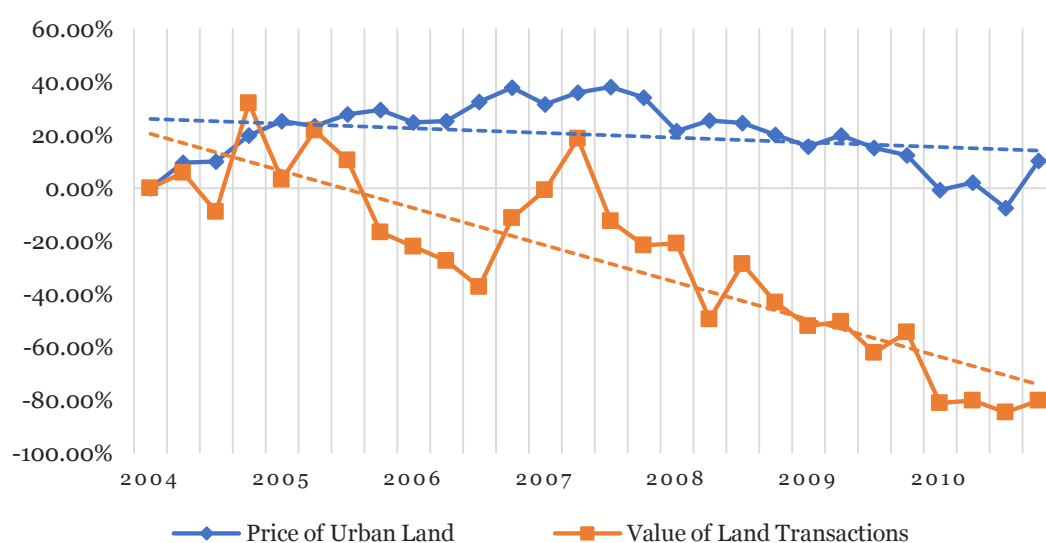


Source: Eurostat, base=2010

(2) Explaining the crisis as a generic function of the logic of capital neglects how the property boom was in fact the outcome of historically-specific political contingencies. The ‘build anywhere’ law of 1997-8 was foremost an attempt to address electoral demands for affordable housing after a 25-year crisis in residential production. Rather than to restore profitability through house-price speculation, its immediate purpose was quite the opposite: to lower house prices by stimulating an increase in home construction. In other words, it was a policy experiment that ‘failed forward’ and ignited a decade of intense economic growth. The erasure of this complex political history is also manifest in an inability to grapple with the immanent role of political corruption in the logic of the Spanish real estate market. For example, in what is the most sophisticated study of the Spanish bubble, López & Rodríguez (2010) award the term ‘corruption’ only a handful of passing mentions in almost 500 pages. This is striking, given that over the last decade Spain has been afflicted by ever more outrageous political corruption scandals: in 2016, the country’s overstretched judicial system struggled to cope with 1,661 ongoing cases (Barbería, 2016). The majority of

these corruption cases have radiated out of the clientelist nexus between local governments and property developers. Yet without an analysis of these practices it is hard to explain important phenomena of the property market, such as the ‘stickiness’ of land prices despite the declining trend in land transactions (Fig.4). Whereas aggregate land exchanges have lost more than 80% of their value between 2004-2013, land prices have stayed roughly the same, regardless of the crash. To understand this disconnect between supply and demand, it is worth noting that Spanish municipalities have a considerable amount of power in setting the price of land, a crucial input determining the cost of new housing.

FIG.4. EVOLUTION OF LAND PRICES VS. LAND TRANSACTIONS



Source: INE, base=2004Q1.

These gaps in the literature form the puzzle that inspires the present research. The purpose is to craft an alternative critical narrative of the Spanish crash that is much more historically-grounded, one that highlights the causal primacy of political contingency as opposed to abstract structural determinism. To problematise this puzzle, the central research question of this thesis will focus on explaining the main paradox of the Spanish experience:

- *Why did the Spanish path into the crisis manifest as two seemingly contradictory processes: as a house-price bubble and as a wave of residential overproduction?*

Though seemingly a narrow and concise question, it acts as a guide to my inquiry that opens up sub-questions of broader theoretical significance:

- *What were the political drivers of asset-price inflation in the Spanish property market?*
- *What role did historically-specific factors play in the Spanish pathway into the crisis?*
- *How should we examine the specificities of Spanish capitalism in an age of global financialisation?*

0.3. The Approach: Method of Analysis

To address this puzzle, this thesis will rely on a framework based on ‘political Marxism’, a lesser-known approach within the Marxist tradition (Wood, 2016; Blackledge, 2008; Knafo & Teschke, 2017). Political Marxism traces its roots to the long-standing debate on the origins of capitalism, and in particular to Robert Brenner’s theorisation of how the transition from feudalism to capitalism took place (Brenner, 1976, 1977, 1982). Challenging his predecessors for an excessive focus on ‘objective economic forces’ (e.g. demographic growth, rise of long-distance trade), Brenner deployed a comparative historicisation of patterns of social conflict in late medieval Europe to demonstrate that the most determining factors in such a world-historical change were the contingent outcomes of political conflict, as well as their subsequent crystallisation into what he termed ‘social-property relations’ – institutions mediating relations of property and domination. The implications of Brenner’s analysis, as well as the considerable debate that it stirred (Aston & Philpin, 1985), spawned a Marxist current with a strong ‘historicist’ persuasion; i.e. a theory ‘which grounds the historicity of phenomena not in abstract laws, but in specific historically situated social practices’ (Teschke, 2014:3).

Political Marxism was largely inspired by Ellen Meiksins Wood (1981, 2002, 2016), for whom the purpose of a ‘political’ Marxism was to provide a response to structural Marxism, which she criticised for an ahistorical bent that resulted in a highly deterministic perspective of social change. Structuralism, she argued, reflects a mode of inquiry that privileges explanations of social phenomena grounded in the internal logic of social structures; the formal and informal rules mediating social relations. This mode of reasoning implies an erasure of political agency and history from Marxist theory. On the one hand, human subjects cease to be living, creating subjects, for their rationality appears as the function of a particular structure. On the other hand, the past becomes predictable, as patterns of historical change can then be simply deduced out

of the mechanics of structural pressures. The point of ‘political’ Marxism, thus, is to invert this formula: to privilege a historicisation of political agency and contingency at the expense of macro-structural laws of causation.

This mode of analysis requires theoretical frameworks that are sufficiently broad and open-ended to be adapted to concrete historical evidence (rather than, say, rigid ‘laws’ of development that tell historical evidence what it needs to tell us in advance). Beyond the broad analytical categories and procedures of political Marxism, which are designed to highlight how political agency drives historical change, the thesis will also draw from the respective historicist methods of Michael Foucault (1991) and E.P Thompson (2013), and will borrow conceptual tools from historical institutionalism (Steinmo & Thelen, 1998; Pierson et al., 2002; Streeck & Thelen, 2005) and performativity (Butler, 2010; Konings, 2015; Cooper and Konings, 2016). These traditions will equip the analysis with a language capable of representing how the sedimentation of political agency shapes structural change, both at the level of material practices and at the level of immaterial discourses.

The deployment of these instruments will result in genealogies of the social-property relations of the Spanish housing market, to demonstrate that ‘the residential is political’ – i.e. that the shape of the housing system is always the outcome of layered struggles between different groups and classes (Madden & Marcuse, 2017:4). In a way, this approach puts this thesis at the intersection between *political economy* and *historical sociology*: while it seeks to answer the questions of the former, it does so with methods closer to the latter.

0.4. The Argument: Contributions to Knowledge

The main contribution to knowledge made by this thesis is a new narrative of the Spanish crash centred around the political. It provides a historicist narrative that focuses on how Spain developed a particular form of residential capitalism that became simultaneously geared towards housing overproduction and housing-price speculation. Contra the existing literature, this story represents the Spanish experience as the product of the interplay between two historically-specific processes: (1) the evolution of an apparatus of residential provision to address a near-perennial housing deficit, and (2) the evolution of patterns of political accumulation forming a clientelist nexus between public officials and the propertied classes. By focusing on the political history of the Spanish housing market, this narrative of the Spanish bubble reveals the

prominence of factors that are heavily neglected in the existing literature: the politics of housing shortages and the importance of political corruption in the inflation of the bubble itself.

(1) *Residential apparatus*: The term ‘apparatus’ here is borrowed from Foucault, who uses it to refer to a set of institutions that are mobilised in a given historical period to address what is perceived to be an urgent need – in this case, the sustained housing deficits that have afflicted Spain since the advent of industrialisation. Of course, the urgency of this ‘need’ has been interpreted through the prism of elite interests, usually with the explicit purpose of working around the problem without threatening the liberal property rights that had given birth to it (something that shall be discussed in depth in chapter 3). The result was a haphazard edifice of ‘fixes’ in response to changing political pressures – e.g. chokeholds on industrial development, working-class unrest, electoral decline, etc.

A historicisation of how these fixes have layered on top of one another over time casts light onto the differential features of the Spanish housing market, which are fundamental for understanding the distinct housing bubble that Spain incubated during the 2000s. Perhaps the most striking is a unique peculiarity that has been overlooked by the political economy literature: a system of land valuations without parallel in Europe, one which values urban land plots according to the *potential* worth of the property and infrastructure they could host, even before any construction operations took place. Crystallising in the nineteenth century to encourage urban landowners to build (allowing them to use the potential value of their lands as collateral to borrow), this system has had great path-dependent effects, as it unexpectedly served to inflate house prices in the 2000s to exorbitant levels. The history of responses to housing deficits is also crucial for understanding the early (and rapid) rise of homeownership tenure in Spain, a feature that figures prominently in the existing literature, though usually without any reference to the pressures to which it was a response. The fast rise of a propertied society between 1950-1980 was the culmination of a series of successful efforts by the state to engineer a property market sufficiently dynamic to encourage developers to build homes as well as to encourage banks to lend mortgages (as rent tenure afforded them a riskier and slower return on their investments). Similar concerns drove the regulation of securitisation techniques in mortgage finance or the drafting of the build-anywhere law in the late twentieth century. In short, the shape of the housing market was in many ways the result of a

long evolutionary process, built upon political efforts to refract the pressures of a near-constant housing deficit.

(2) *Political accumulation*: The notion of ‘political accumulation’ is borrowed from Brenner (1985:236-246), who used it to describe the patterns of elite competition by non-commercial means in late medieval/early-modern Europe (e.g. conquest, improvement of mechanisms to tax the peasantry), dynamics which developed a symbiotic relation with a nascent capitalism. The concept is here transposed onto a very different context to describe patterns of electoral competition between political elites through the exaction of bribe monies from property developers, dynamics that, in turn, rewarded Spain’s construction firms with political favours and inflated profits.

The ‘political’ logic of these clientelist dynamics was immanent to the ‘economic’ logic of the bubble, and yet it always appears as an afterthought in the political economy literature. Since the nineteenth century, there has been a strong clientelist nexus between an elected political class and the propertied classes. However, it was only under the dictatorship of Francisco Franco that political elites forged such a nexus with the property developers of a rising residential capitalism. With the advent of democracy in the late 1970s, these clientelist networks adapted themselves to the new shape of the state, in which decision-making power over the built environment was decentralised to a myriad of regional and local nodes, and in which political elites were engaged in a permanent electoral competition to renew their access to state power. The result was a pattern in which political parties used their access to local and regional nodes of state power to trade vital political favours (e.g. tailored land designations, public contracts, savings bank credit) in exchange for a regular stream of bribes, usually exacted in the form of a small percentage of the profits they had secured their clients (i.e. ‘kickbacks’). Political parties directed these monies to the ‘war chests’ financing their electoral campaigns in an effort to outcompete one another and renovate their access to state power. The implication here is that the overproduction of the built environment needs to be understood through the complicity of a political class that enabled it in order to meet its own competitive pressures.

My analysis of contemporary patterns of political corruption in Spain is a contribution of distinct importance. This phenomenon is not merely ‘undertheorised’ in the existing political economy narratives of the Spanish crash, it is virtually absent. Recent scandals, which in the last few years have revealed the sheer scale and systematic nature of bribing practices, make untenable the continuity of this gap in our

understanding of the crisis, an urgent need that this thesis addresses. Arguably, investigative journalists have already uncovered a critical mass of evidence about the criminal nexus that for decades has bound together party finance and bribes by the real estate industry. However, the recent nature of these scandals has meant that academic studies have not yet fleshed out these dynamics. *This thesis is perhaps the first academic study that attempts to chart this territory*: analysing a large volume of ‘primary’ sources, from news data to legal documents, chapter 7 presents a reconstruction of the mechanics of illicit party finance and their relationship to the political economy of the bubble. In other words, the analysis of the political economy of political corruption contained in this thesis is not just a ‘theoretical’ contribution, but also an ‘empirical’ one, making it of potential interest to fields beyond the scope of political economy (such as corruption studies).

The thesis also carries implications for the study of the Euro crisis, both within and without political economy. The domestic focus of this thesis poses a challenge to the dominant political economy accounts of the Euro crisis, Marxist or otherwise. Rather than treating the crisis of a peripheral country as the function of Eurozone macroeconomics, it historicises its national social formation and inquiries into its distinctive, home-grown path towards the crisis. This is not to say that the Euro did not matter in the inflation of the Spanish bubble; had it not been for the Eurozone, it is unlikely that the asset-price inflation would have acquired the magnitude that it did. What this thesis demonstrates is that the Euro itself remains an *insufficient* explanation of the crisis of the European ‘periphery’, for Spain had a crisis of its own, and that macro-structural explanations lack sufficient analytical space to take domestic factors seriously. Rather than a Euro crisis, it is perhaps more accurate to speak of a series of Euro *crises* that were *coordinated* (rather than *caused*) by European macroeconomics. At the same time, this thesis also challenges neoliberal accounts of the crisis by focusing on the primacy of political factors (including corruption), while disturbing their assumption that ‘politics’ are distortive to the market economy. On the contrary, as successive chapters will show, clientelist dynamics were perfectly compatible with market success.

The final contribution is the development of a political Marxist framework to apply to contemporary political economy. One of the reasons why political Marxism is less known in political economy than other ‘cousin’ approaches (e.g. neo-Gramscianism, autonomism, etc.) is because it has remained mostly concerned with historical-sociological themes: the origin of capitalism (Wood, 2002a, 2002b), the English Civil

War (Brenner, 2003), the French Revolution (Cominel, 1991), etc. When political Marxists have taken a leap to contemporary political economy, they have tended to do so in disguise, without explicitly addressing how political Marxism informs their perspectives (e.g. Knafo, 2013). Moreover, in the few occasions that political Marxists have transposed the language of their tradition onto contemporary affairs (e.g. Brenner, 1998, 2006; Wood, 2005), they have tended to relapse into the kind of reasoning they once criticised: a privileging of structural determinations at the expense of political contingencies in the process of historical change (for a discussion, see Knafo & Teschke, 2017). This thesis has sought to do precisely the opposite, applying the conceptual instruments of political Marxism to a concrete case of interest to contemporary political economy while attempting to stay true to its historicist promise, providing insights for others who might wish to do so as well.

0.5. The Structure: Chapter Outline

The thesis is divided into two parts, themselves split into three and four chapters respectively. The chapters of the first part deal with theoretical issues: (1) examining the literature and presenting the research problem, (2) developing a historicist method of analysis to address the problem, and (3) outlining an alternative to existing approaches on the basis of that method.

Chapter 1 is a review of the existing literature on the Spanish crash, identifying three broad paradigms centred around a particular ‘narrative’ of the crisis. (1) *The immaturity narrative*, the story of choice of most schools of economics, represents the Spanish crisis as the product of the domestic weakness of the Spanish economy, and, in particular, of the political control that political parties exerted over the savings bank sector – the main mortgage providers of the country at the time. (2) *The core-periphery narrative* sees the Spanish boom and bust as a symptom of the macroeconomic imbalances built into the structures of the European Monetary Union. (3) *The spatial fix narrative*, the most popular amongst authors with a political geography bent, represents the Spanish bubble as the logical culmination of a specialisation in real estate speculation after the crisis of its manufacturing base in the 1970s. The chapter ends with a critique these narratives, arguing that, for all their differences, they share a difficulty to accommodate the political in their accounts of the crash. Whereas the first narrative awards a prominent role to the political in its account, it presents this role as inherently distortive to an otherwise perfect market economy. In response, the second and third narratives have constructed critical

accounts that emphasise macrostructural factors, but they have done so at the expense of discarding the political from their theories.

Chapter 2 opens with the question of *how* to represent the political, seeking to build a critical (i.e. Marxist) narrative of the Spanish crash centred around the imprint left by power struggles over time. The chapter traces the problems of narratives 2 and 3 to their structuralist roots, building a Marxist framework of analysis that seeks to transcend the ahistoricism of structuralism. From this discussion emerges a historicist method heavily inspired by the tradition of political Marxism, but also enriched with insights from other traditions.

Chapter 3 showcases the ‘application’ of this historicist method to the Spanish case, sketching out an alternative narrative of the Spanish crash. As addressed above, this narrative revolves around two historically-specific processes: (1) the layering of an apparatus of residential provision, and (2) the evolution of patterns of political accumulation binding together the political and the propertied classes. The chapter traces the complex interplay between these two historical processes from the nineteenth century to today, teasing out the political agencies that have mediated this relationship, and ultimately demonstrating how the peculiarities of the Spanish crash were a culmination of this history.

The second part offers a more detailed examination of the themes introduced by chapter 3. Each of the four chapters of this second part advance a more detailed historical study of a particular area of the Spanish real estate market: urban planning practices (chapter 4), the housing system (chapter 5), the financial system (chapter 6), dynamics of political corruption (chapter 7).

Chapter 4 provides a genealogy of urban planning. It argues that the Spanish bubble would be incomprehensible without the peculiar set of land-use planning institutions that enabled the wave of residential overproduction sweeping the country during the 2000s. The chapter identifies the origins of these unique institutions in the nineteenth century, and traces the long legacy of problems of residential provision that they generated thereafter. Mapping the layering of political efforts to address these problems, the chapter culminates in a demonstration of how the land-use planning law of 1997-8 – the piece of legislation that initiated the bubble – was only the latest of these agencies, as well as the one with the most radical consequences.

Chapter 5 explores the evolution of the Spanish housing system, tracking the formation of a culture of mass speculation around it. The chapter opens with an examination of the formation of a housing sector dominated by homeownership tenure and without price constraints in an effort to encourage property developers to build housing, giving rise to a housing system that acted as the contextual precondition towards house-price inflation. The chapter then proceeds to examine how, in this context, a ‘common sense’ of mass speculation developed through decades of cultural change. These included: a strong attachment to property development, the identification of reckless urbanisation with socioeconomic progress, and the association of house-price speculation with economic stability.

Chapter 6 is a genealogy of the Spanish financial system, with a particular focus on the development of mortgage finance, and on the role of the savings banks in real estate credit. The purpose of this chapter is to show how finance has developed in tune with the patterns of political accumulation of the epoch under consideration. It is argued that the role of the semi-public savings banks (the *cajas de ahorros*) in the inflation bubble was but the expression of the patterns of competition within the political class in the context of the federal liberal democracy that emerged after the late 1970s. The role of political accumulation in the *cajas*’ specialisation in real estate business segments was the reason behind their decades of competitive success, as well as of their eventual downfall.

Chapter 7 explores the patterns of widespread political corruption that accompanied the Spanish bubble. Building on the argument of the previous chapter, the chapter dissects the patterns of political accumulation underpinning an ‘iron triangle’ in the Spanish real estate market – a three-way clientelist dynamic between the state bureaucracy, an oligarchy of construction firms, and political parties. It will be argued that corruption was not a mere outgrowth of the ‘economic’ logic of the bubble (i.e. market competition between firms and cities), rather, corruption represented a ‘political’ logic that was constitutive of the bubble itself. The crux of this argument is an analysis of the strategies through which political parties were systematically involved in contracts-for-kickbacks schemes, practices that encouraged them to engage in real estate clientelism in order to raise illicit campaign finance.

Together, these chapters will flesh out an alternative narrative of the Spanish crash, one that is grounded in the historicity of political dynamics rather than in structural laws of causation.

Part One

The residential is political – which is to say that the shape of the housing system is always the outcome of struggles between different groups and classes. Housing necessarily raises questions about state action and the broader economic system. But the ways in which social antagonisms shape housing are too often obscured.

Peter Madden & David Marcuse (2016:4)

1. Three Narratives of the Spanish Debacle

1.0. Introduction

Early in 2007, after a decade of insatiable demand for property, the real estate industry stood at the forefront of Spanish capitalism. Pundits had warned that the conjuncture would not last forever, but the worst-case scenario envisioned was a ‘soft landing’ in the mid-term. That summer, however, the world was stunned by the outbreak of subprime mortgage crisis in the United States, sending violent shockwaves throughout the circuits of global finance. First in line were the banks of the United Kingdom, heavily exposed to American mortgage-backed debt, strangling the British housing market in the process. A knock-on effect was the slump in demand for homes in the favourite retirement destination of Britain’s expatriates: the Spanish Mediterranean coast. In the coming months, Spanish home prices peaked and entered a downward trend, gaining momentum on their way down (Naredo, 2010). At the time, the government was in the control of the centre-left *Partido Socialista* (PSOE), headed by José Luis Rodríguez Zapatero, who had presided over the booming years of the middle of the decade. Zapatero was re-elected in March 2008, before the worst effects of the crisis manifested and after repeatedly denying the gravity of circumstances (Ayala, 2010). But that summer, the country’s titanic construction industry finally imploded, destroying millions of jobs in the process. In line with European prescriptions at the time, the government responded with a stimulus package (*Plan E*); a poorly executed measure that proved to be a highly tenuous fix. The housing market continued to unravel, and, as it spun out of control, thousands of families were gusted out of their homes and a debris of billions worth of toxic assets landed on the books of financial institutions. The great crisis of residential capitalism had begun.

The purpose of this chapter is to provide a critical review of the accounts explaining this generation-defining moment. It will identify three broad ‘narratives’ in the telling of the story, unpacking their arguments against the unfolding of the crisis for better context. The broad contours of each narrative will be outlined in a series of premises, taking care to acknowledge the different versions of the story within each paradigm. The first discussed is the *immaturity narrative* (1.1), which blames the crisis on political distortions of the market economy; a pathological pattern of development that is said to be shared by other countries of the European periphery. The second is the *core-periphery narrative* (1.2), which situates the Spanish crash within the broader crisis of the European periphery and allocates causal primacy to external economic

imbalances occasioned by the design of the European Monetary Union. The third is the *spatial fix narrative* (1.3), which explains the crisis through the specialisation of Spanish capitalism on real estate after the crisis of manufacturing of the 1970s. The chapter concludes with a critical analysis of the limits of each narrative (1.4), arguing that they all are underequipped to represent the role of the political in their recounting of the Spanish path into the crisis. Either because the political is reduced to the cartoonish role of always distorting an otherwise perfect market economy, or because the political is reduced to a function of a macrostructural logic, *the role of power struggles in the shaping of the Spanish experience* tends to disappear into the background of these narratives.

1.1. The Immaturity Narrative

The global financial crisis morphed into the European debt crisis in December 2009, when the Greek government revealed the critical state of that country's national accounts. In the process, they admitted what many had long suspected: for years, successive administrations had been obscuring the true scale of the Greece's public debt (BBC, 2012b). Credit-rating agencies swiftly downgraded the worth of Greek bonds. Six months later, at the incredulity of capital markets as to their solvency, the Greek government applied for funds from the so-called 'Troika'.² The prospect of a sovereign default in the heart of Europe – and, by extension, of a breakup of the Eurozone – started to seem like a real possibility. Alarms were raised about other European economies in distress, prompting the devaluation of their bonds as well: the feared 'contagion effect'. To designate these rogue nations, an unflattering acronym gained currency: PIIGS – Portugal, Ireland, Italy, Greece, and of course, Spain.³

The narrative of the crisis disseminated by mainstream media outlets became refocused around the creditworthiness of these countries (see Mirowski, 2013). From the start of 2010, pressure began to build against the governments of the PIIGS to take measures that would restore their credibility with investors. Under pressure from the ECB, in May 2010 Zapatero reversed his previous stimulus policies to introduce harsh austerity measures. The axe fell on civil servants, pensions, and on a vast array of social expenditures. Zapatero justified his capitulation from the grandstand of the Spanish

² The triad of formed by the European Commission, European Central Bank, and International Monetary Fund.

³ The acronym 'PIGS' originated in the world of financial trading, where it appears to have already been in usage in 1979 to collectively refer to the economies of the European south (Koba, 2012). It rose to popularity in the aftermath of the global financial crisis to refer to the debt-stricken European periphery. At the time, an additional 'I' was added to include Ireland.

Congress: ‘It is now more than ever that we need investors on our side, to offer an image of stability’ (Romero, 2010). Echoing the arguments of neoliberal governments elsewhere, one of his ministers went further: ‘we have been living beyond our means and it is now time to buckle up’ (Blanco, quoted in Recuero & Delgado, 2011). The conservative *Partido Popular* soon appropriated this discourse and turned it against the socialists, accusing them of not having adopted the necessary measures in time. In the process, the conservative opposition styled themselves as the sole credible interpreters of the word of ‘the markets’, which they referred to almost as a force of nature. In September, to the dismay of Zapatero’s electorate, the Spanish parliament passed a labour reform to flexibilise employment contracts and a constitutional amendment to cap future budget deficits, all to reassure ‘the markets’ (BBC, 2012b). But Zapatero’s offerings did not deliver the favour of these faceless deities. The opposition’s discourse gained credence, and in a general election two months later, the conservative candidate, Mariano Rajoy, won a huge landslide victory. In the coming months, the new government proceeded to undertake aggressive structural reforms in accordance with the dictates of European elites. In the words of the European Finance Commissioner Pierre Moscovici, Spain was to become their ‘model pupil’ (quoted in Tahiri, 2016).

This chain of events reflects the rise of a particular way of telling the story of the crisis in this period: the *immaturity narrative*. Put simply, this view attributes the causes of the Euro crisis to supposed malformations within the countries affected (The Economist, 2010; Krugman, 2010; Stiglitz, 2014; JP Morgan, 2013; Alesina et. al., 2017; for a discussion see Dooley, 2015; Togati, 2011). The broad contours of this story can be summarised as follows: (1) Pathological patterns of development within the PIIGS made them diverge from advanced European standards, rendering them fragile to the shocks of the global financial crisis. These national legacies vary from country to country, though they all share a negative influence on the economic performance of their country. (2) This negative influence manifests in similar symptoms across the PIIGS. In particular, the countries of the European south are said to be overly attached to their inefficient labour standards and bloated welfare states. (3) The elites of these countries have demonstrated a short-sightedness to correct these structural weaknesses, and even complicity with the sources of the problems, be it for electoral reasons or due to outright corruption. (4) The PIIGS need to demonstrate a willingness to ‘grow up’ and undertake long overdue structural reforms. The goal should be to converge with the neighbours of the European core, even if this requires the technocratic imposition of measures unpalatable for the masses.

There are two different versions of this story, reflecting a factional divide at the apex of European politics. On the one hand there is the *ordoliberal* version of the immaturity narrative, informed by the neoliberal orthodoxy of new neoclassical economics. On the other hand, there is the *dirigiste* version, informed by the neoliberal heterodoxy of new Keynesian economics (Togati, 2011:92-94).⁴ The main divide between these two strands revolves around the role of European institutions, both in the run-up to and during the management of the crisis.

Backed by theorists of the ‘Optimum Currency Areas’ (Krugman, 2010; 2015a; 2015b; Stiglitz, 2014), the *dirigiste* thesis urges the creation of pan-European mechanisms of macroeconomic stabilisation. According to this view, successful monetary unions require a certain homogeneity between their constitutive parts (e.g. synchronised business cycles, similar wage and price flexibilities, labour mobility) as well as a fiscal union on the same scale to offset the geographical imbalances caused by monetary unification. For proponents of this view, the European Monetary Union was launched prematurely, as it lacked the necessary convergence between its member states, as well as a fiscal union and a central bank with lender of last resort functions.⁵

By contrast, the *ordoliberal* thesis is sceptical of any need for pan-European mechanisms of macroeconomic stabilisation. This view is informed by ‘Say’s Law’, the neoclassical belief that, with the right incentives, supply generates its own demand. In other words, provided that markets are flexible enough, market success will translate into wealth creation and this alone should boost economic growth. Any other form of demand management – say, a continent-wide stimulus package – will only serve to crowd out private investment and hamper growth. The response to the crisis should be restricted to domestic shock treatments of market liberalisation, tight demand policies, and disinflationary restrictions. Beyond some academic supporters (e.g. Alesina, 2012), these prescriptions were most clearly articulated in the editorials of the specialist press (e.g. *The Economist*, 2010) and in the reports of institutional investors:

[It] has become apparent that there are deep seated political problems in the periphery, which, in our view, need to change if EMU is going to function

⁴ It may appear harsh to lump together new Keynesian thought under the neoliberal label. However, this strand of Keynesian thought shares a great deal with neoliberal reason. In the words of Paul Krugman himself: ‘the brand of economics I use in my daily work [...] combines the grand tradition of microeconomics, *with its emphasis on how the invisible hand leads to generally desirable outcomes*, with Keynesian macroeconomics’ (emphasis added, quoted in Mirowski, 2013:21).

⁵ By design, the ECB was never equipped with lender of last resort functions. See below for more details.

properly in the long run. [...] Constitutions tend to show a strong socialist influence, reflecting the political strength that left wing parties gained after the defeat of fascism. Political systems around the periphery typically display several of the following features: weak executives; weak central states relative to regions; constitutional protection of labor rights; consensus building systems which foster political clientelism; and the right to protest if unwelcome changes are made to the political status quo (JP Morgan, 2013).

Yet, whether the solution is ‘austerity plus market liberalisation’ (ordoliberal thesis) or just ‘stimulus plus market liberalisation’ (*dirigiste* thesis), in both cases a fundamental point remains the same: the lagging periphery of the PIIGS ought to come to its senses and undertake supply-side reforms to converge with the more advanced core, generally exemplified by Germany. This narrative was often embraced by the general press, which did not hesitate to resort to patronising stereotypes to conjure up a fundamental antagonism between the cold and disciplined national cultures of the north and the inherent indolence of the south. For example, an article in the German magazine *Der Spiegel* (hardly a tabloid) described changes in Spanish labour legislation as a Troika-imposed abolition of the *siesta*, claiming that the country had come to realise that ‘it could no longer afford to “lounging about” in the midst of a national bankruptcy’ (Höfer, 2013). Even though the labour reform addressed nothing of the sort, the article went on to discuss Spanish sleeping patterns and the country’s supposedly laid-back lifestyle. The irony is that the article was written in good faith, as a defence of the ‘Latin culture of rest and leisure’ in its ‘cultural struggle’ against ‘Prussian virtues’.

Following the schema outlined earlier, the Spanish rendition of the immaturity narrative goes as follows: (1) The performance of the Spanish economy is distorted by long-entrenched inefficient institutions. These include: (a) *a highly decentralised state*, with a weak executive relative to regions, in which important economic functions are devolved to a large number of regional administrations (JP Morgan, 2013:12-13; Royo, 2014:2). The multiplicity of this complex political structure complicates the coordinated implementation of necessary structural reforms. (b) *An excessively rigid labour market*, built upon an inflexible system of collective bargaining and a stark contrast between permanent and temporary contracts (Ortega & Peñalosa, 2012). This harmed the overall competitiveness of the Spanish economy and encouraged firms to rely heavily on temporary work, rendering the labour market fragile to shocks. (c) *A large and highly politicised savings banks sector*, the now infamous *cajas de ahorro*, which amounted to almost half of the financial system at the time of the crisis. These

institutions are the focus of most immaturity accounts (Cuñat & Garicano, 2009; Monter, 2011; Garicano, 2012; Royo, 2014; Quaglia & Royo, 2015).

(2) The property boom of the 2000s concealed the problems of the Spanish economy lurking beneath the surface. Unlike other peripheral countries, Spain entered the global financial crisis on the back of sustained current account surpluses and with a low public debt to GDP ratio. Due to this characteristic, accounts of Spanish immaturity have tended to focus less on Greek-style ‘chronic fiscal misbehaviour’ and more on why the symptoms of immaturity were not immediately apparent.⁶ This paradox is usually explained away with the burst of cheap credit brought on by the formation of the Euro: the influx of finance facilitated by the single currency delivered high levels of growth and rising property values. This created illusory wealth effect that only served to conceal underlying problems of competitiveness which then surfaced during the crisis. Often cited as a manifestation of this structural weakness is the enormous scale of job destruction after 2007, which exposed the lack of resilience of vast swathes of the economy (Ortega & Peñalosa, 2012:19; Royo, 2014:12).

(3) The political distortion of the financial system, and in particular of the savings banks, underpinned an excessive expansion of credit in the decade preceding the crisis. The main target of this analysis are the distinct corporate governance structures of the *cajas de ahorros*, which granted local and regional governments the power to appoint subordinates, often without the necessary qualifications, into their executive boards (Cuñat & Garicano, 2009). The political capture of these institutions meant that the savings banks often allocated credit with the electoral interests of their regional political patrons in mind. The boost of real estate credit played a central role in this process. Acting as a quantitative easing of sorts, the property boom ‘had an effect on policy choices because no government was willing to burst the bubble and risk suffering the electorate’s displeasure’ (Royo, 2014:12). But political meddling is also blamed for the management of the crisis itself: ‘Even more important was the role of these political connections in diluting the role of the supervisor after the crisis started, in what was meant to be the crisis resolution stage but which was in fact a crisis cover up stage’ (Garicano, 2012). Despite overwhelming evidence that the *cajas* were busy reclassifying, refinancing and extending loans to conceal their losses between 2008-

⁶ There are exceptions, of course. Neoliberal hardliners Ángel Gavilán et al. (2011:90-92) still manage to cast the blame on excessive government spending. For these authors, the Spanish bubble can simply ‘be rationalised as the natural reaction of the economy to the observed developments in interest rates and demographic variables. However, it could be argued that alternative policies could have been adopted to prevent such a large accumulation of private indebtedness’. What would these alternative policies be? ‘a reduction in government consumption’ and ‘a structural reform in the product market’.

2010, the Bank of Spain looked the other way to avoid confronting and exposing the political interests underpinning these losses.

(4) From this logic follows the necessity of certain measures, including a labour market reform and a ‘depoliticisation’ of the savings banking industry, to let the market operate optimally. Immaturity theorists have recurrently noted the ‘urgency to adapt’ Spain’s factor markets, i.e. the need for greater flexibility in employment practices (Ortega & Peñalosa, 2012). The differential impact of the crisis on credit institutions is also cited as evidence of the need to align the corporate governance of the *cajas* to those of the commercial banks. Although the largest commercial banks (Santander and BBVA) faced serious losses during the global financial crisis, the European stress tests of 2010 revealed a great capacity for resilience, and overall no major bank would come to require public capitalisation during the crisis (Poveda, 2012:261). By contrast, when the real estate market collapsed, the *cajas de ahorro* were left holding a giant bag of toxic property assets. The three largest *cajas* in distress alone required an amount of public capitalisation equivalent to 5% of GDP (Garicano, 2012). The uneven effects of the crisis amongst banks and *cajas* are universally ascribed to the political meddling of local and regional governments in the management of the savings banks.

1.2. The Core-Periphery Narrative

In February 2012, in a moment perfectly staged for the cameras, Spanish Finance Minister Luís de Guindos whispered into the ear of European Commissioner Oli Rehn: ‘Tomorrow we approve the reform of the labour market, you will see that it is going to be extremely aggressive, with a lot of flexibility around collective bargaining agreements and a reduction in severance payments’ (Pérez, 2012). This was a veiled message to investors in an effort to regain their confidence. However, the stunt did not work out as expected: in May, *Bankia*, a large bank recently formed out of the merger of several *cajas*, collapsed. The worth of Spanish bonds began to devalue quickly, and in yet another desperate attempt to appease the wrath of the markets, the government approved the largest cut to public spending in recent history. In exchange for these measures, in the summer the European Union agreed to a €100bn loan to recapitalise the Spanish financial system. In an effort to save face, Guindos insisted: ‘In no way is this a bailout, it is a loan with very favourable terms’ (Abend, 2012). The international press (Time magazine) responded: ‘you say tomato, I say bailout’. Spanish bonds got no respite from capital markets.

The storm ended in August, quite abruptly and for reasons quite different to those expected. All it took was for Mario Draghi, chairman of the European Central Bank, to pronounce a few seemingly magic words: ‘the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough’ (ECB, 2012). As it turned out, the turbulence in European bond markets was caused by a large-scale speculative attack on peripheral debt. Knowing that the ECB lacked the mechanisms to act as lender of last resort, institutional investors had been betting on the prospect of the PIIGS defaulting on their debt (Wahl, 2012). To do so, investors purchased credit default swaps, derivative contracts that insured them against the default of a sovereign nation, only to sell their peripheral bonds *en masse*, prompting their devaluation on capital markets. The point was to create a self-fulfilling prophecy: by pushing entire countries to the verge of bankruptcy, they were seeking to cash in on their insurance that those countries would indeed go bankrupt. When Draghi suggested that the ECB would do ‘anything’ to save the Eurozone from disintegration, it was understood that the central bank would step in to prevent a sovereign default if it had to. The game was over.

The ordoliberal side of the story was highly discredited by these events: since 2010, the ‘Brussels-Frankfurt consensus’ had insisted that individual structural reforms would suffice to appease capital markets (Pérez, 2014). However, not only were investors not responding as they should, but their speculative attacks were being rallied by the crown jewel of German finance: Deutsche Bank (Wahl, 2012). The effectiveness of the ECB’s intervention vindicated those who had all along argued that the EMU needed strong institutions if it was to survive. Yet warnings about the usage of credit default swaps to engage in speculative attacks had been circulating in the financial press for some time (see Alloway, 2011; Wallace, 2012). The passivity of European elites at the predatory behaviour of institutional investors opened the door to more critical narratives.

Over the years, a different interpretation has gained salience in academia: *the core-periphery narrative*. Embraced by a fairly broad spectrum of academic studies, this paradigm refocuses the story around the structures of monetary integration, which are said to have confined the periphery to a position of subordination from the core (see van Apledoorn, 2009; Lucarelli, 2011; Lapavistas et al., 2012; Rodrigues and Reis, 2012; Overbeek, 2012; Becker and Jäger, 2012; Gambarotto & Solari, 2015; Bieling, 2015; Stockhammer, 2016). According to this view, the boom and bust of the European periphery in general, and of the Spanish economy in particular, can be attributed to the workings of exogenous macro-structural factors.

For all its internal diversity, the main thrust of this narrative can be summarised in three points: (1) The starting premise of the core-periphery story is that the economic imbalances mounting in peripheral economies during the run-up to the crash have their origin in the structural design of the Eurozone. On this point, core-periphery theorists agree, to some extent, with the new Keynesians. The foundations of the EMU – as laid down by the Maastricht Treaty of 1992 – did not envision the need for substantial coordination amongst member states on economic matters other than in monetary policy, which was tasked with a strict, continent-wide control of inflation. The levers of monetary policy were insourced to a central bank modelled along the lines of the German Bundesbank, an institution independent from government control, designed to guard its anti-inflationary mission from ‘political’ interference. On top of this, the Stability Pact of 1997 ensured that the nascent European Central Bank could not engage in quantitative easing or act as a lender of last resort. Thus, when prospective member states passed the disinflationary test of the Maastricht criteria, they gave up their monetary sovereignty to join a currency union without a corresponding fiscal framework on the same scale and in which continent-wide stimulus policies had been ruled out from the start (Lucarelli, 2011; Lapavitsas et al., 2012).

Bailey et al. (2017:9) summarise it this way: ‘critical political economists could declare [that] the European Union is imposing disciplinary neoliberalism on radical Greek dissidents, not because of an inherent antipathy between “hardworking Germans” and “lazy Greeks”, but precisely because the European Union has been created as a neoliberal institution and therefore knows no solution to neoliberal problems other than neoliberal ones’. However, different perspectives explain the rationale of this neoliberal design differently. Depending on the approach, it is said to be either (a) *a design flaw* informed by the spell of macroeconomic theories (Togati, 2011; Hall, 2014:1224), or (b) *a deliberate skew* reflecting the interests of the leading elements within the European transnational capitalist class (van Apledoorn, 2009; Rodrigues and Reis, 2012; Bieling, 2015).

(2) From this structural design emerged two economic poles in the continent. The loss of monetary sovereignty within the currency union prevented its southern members from resorting to strategies of currency devaluation to heighten the competitiveness of their exports (Lapavitsas et al., 2012). In this context, and without fiscal transfers at a continental scale to balance out the uneven effects of a single monetary policy, the Eurozone became divided between those economies that responded better to the

disinflationary impulse hardwired into the design of the Eurozone (*the core*) and those who lost out because of it (*the periphery*). Beyond this point there is heated debate as to the exact source of this divergence. For authors from the ‘varieties of capitalism’ tradition (Hall, 2014; Johnston et al., 2015), the core-periphery divide reflects basic differences between the political economies of northern and southern Europe. Whereas the northern variety of capitalism is underpinned by ‘high levels of wage coordination, sophisticated systems of vocational training, the inter-firm relations necessary to operate collaborative research and development, and intra-firm relationships that promote continuous innovation and quality control’, in the Mediterranean variety ‘wage bargaining is difficult to coordinate because trade unions are relatively strong’ and ‘employer associations are less deeply institutionalised’ (Hall, 2014:1225). By contrast, for Marxists like Lapavistas et al. (2012), the competitive advantage of the core lies in its capacity to entertain a ‘beggar thy neighbour’ strategy. Focusing on Germany, this account focuses on the take-off of German exports around the turn of the millennium. This development is explained by the labour reforms of this period (*Hartz Plan*), which repressed wages and flexibilised the labour market in order to reduce labour-units costs. In turn, these measures gave rise to a ‘neo-mercantilist policy’: in suppressing domestic demand, self-imposed austerity prevented the penetration of foreign imports into the domestic market and maximised surpluses in external accounts (Lucarelli, 2011; Bellofiore & Halevi, 2010; Bellofiore, 2013).

It is worth remarking that, whereas the countries of the periphery are very clearly delimited (i.e. the PIIGS), the core has a much more imprecise definition and varies considerably from author to author. For Overbeek (2012), the core is essentially constituted by the members of the former Deutschmark-zone: Germany, the Netherlands, Austria, and Belgium. Hall (2014) agrees with this list but supplements it with Finland. Lapavistas et al. (2012) add France to the equation but drop Austria. By contrast, Gambarotto and Solari (2015) boil the core down to its very essence: West Germany and some other urban areas of the continent (e.g. Milan). In short, beyond West Germany, which unambiguously forms ‘the core of the core’, the geographical contours of this notion stretch in a nebulous arc across the European north-west.

(3) The export-led models of the core and the debt-fuelled models of the periphery developed a symbiotic interrelationship. Put simply, the trade surpluses piling up in the core were recycled as capital exports to the deficit countries of the periphery, something that in turn ensured their continued absorption of the core's exports (Becker & Jäger, 2012; Lapavistas et al., 2012; Stockhammer, 2016). This funnelling of

capital towards the banks of the periphery facilitated the overflow of investment towards speculative ventures: 'At the root of the crisis is a build-up of debt, fuelled by debt-driven and export-driven variants of neoliberal growth models' (Stockhammer, 2016:374). This was particularly the case in those peripheral countries that joined the Eurozone with overvalued currencies, like Ireland or Spain, allowing capital flows to meet negative interest rates as they landed. This flooded these economies with cheap credit, resulting in the inflation of property bubbles (Angelini & Farina, 2011; Febrero & Bermejo, 2013; Garcia Arias et al., 2013; Baccaro & Tober, 2017). The illusory effects of their property bubbles are the reason why these countries were able to combine current account surpluses and high levels of growth with a mounting balance of trade deficit.

It is worth noting that some studies frame the core-periphery dynamics of the Eurozone within the broader cartography of the global economy. According to this view, European core-periphery dynamics are a mere meso-level reflection of a pattern by which a handful of privileged countries everywhere – the European core amongst them – perpetuate their power by cornering the most remunerative forms of commodity production and subjugate the global periphery into never-ending spirals of debt (Fouskas & Dimoulas, 2013; Gambarotto & Solari, 2015). Another 'global' take represents European core-periphery dynamics as a symbiosis between two global 'varieties of financialisation'. As Álvarez (2013:1) puts it:

On the one hand, some economies have presented strong capital inflows resulting in relatively high economic growth, huge credit and real estate bubbles and significant current account deficits (U.S., Ireland, Spain, Portugal, Iceland). Other developed countries (Germany, Netherlands, Austria, Japan) experienced an export-led growth model with modest investment, consumption and GDP growth rates, and with trade surplus that have been used to finance credit bubbles of the first group.

Along these lines, Varoufakis (2011) has argued that the European periphery acts as a consumer of last resort for German exports, emulating the role the United States has performed since the 1970s for global capitalism as whole. Back then, the United States began to allow its balance of trade to deteriorate, absorbing the industrial surpluses of its trading partners –Germany, Japan, and later, China – in exchange for the reinvestment of their profits in US government bonds. This constant influx of financial flows allowed the American state to sustain enormous levels of public debt, and to

deepen the supply of credit at home. Germany's role in Europe was an attempt to extend this process to the Eurozone, using the economies of the south as a consumer of last resort for its exports, and as recipients of its recycled profits (ibid.:261-5).

1.3. The Spatial Fix Narrative

Around 2013, images of dramatic home repossessions started to recur in the news on a daily basis. The eviction crisis struck a nerve in a society as propertied as the Spanish. But all the more harrowing was the absence of limited liability in Spanish mortgage laws: property repossessions did not cancel out one's debt with the bank, and given the dramatic drop in real estate prices, negative equity often meant that the repossessed had to continue paying their mortgages despite having lost their homes (Coq-Huelva, 2013). All of this was coupled with a growing realisation that neoliberal solutions no longer made sense but nevertheless kept stumbling forward amid growing repression. The austerity measures introduced after 2010 had only served to depress effective demand and to aggravate the fiscal position of the state. Successive labour market reforms in 2011 and 2012 failed to curtail unemployment, which continued to surge to new heights.⁷ The discourses appealing to the populace to make sacrifices for the sake of the economy contrasted with the indifference of investors. The logic of 'austerity' championed by the government clashed with the extravagant corruption scandals afflicting the local officials of the party in power. Urban space became the locus of the anti-austerity movement, as protestors occupied public areas to achieve visibility, blocked streets to prevent the enforcement of the evictions, and squatted abandoned buildings to house the dispossessed (Alemany & Colau, 2012; García-Lamarca & Kaika, 2016). These events have sparked a growing critical inquiry around the role of space in the boom and bust of Spanish capitalism, spawning a small but highly sophisticated body of literature around this issue (López & Rodríguez, 2010, 2011a, 2011b; Delgado, 2011; Coq-Huelva, 2013; Charnock et al., 2014).

All of these studies are inspired by the highly influential work of Marxist political geographer David Harvey, whose prolific writings have explored the spatial dimensions of Karl Marx's theory of capital accumulation (e.g. Harvey 1978, 1982, 2003). To do this, Harvey abstracts the process of capital accumulation into three separate but interconnected circuits (Harvey 1978:106-108). According to this conceptualisation, traditional patterns of investment in commodity manufacturing –

⁷ Between 2011 and 2013, unemployment climbed up from 20% to 26%. The figure surged from 44% to 56% amongst the under 25 (datosmacro.com).

the locus of Marx's *Capital* – merely constitute the *primary circuit* of capital accumulation. By contrast, investment in the 'built environment' – a term that encompasses all the infrastructure necessary for continued production and consumption – constitutes the *secondary circuit*, whereas investment in upgrading the work process (e.g. technology or 'human capital') constitutes the *tertiary circuit*. Central to Marx's theory of capital accumulation is the idea that capitalist competition compels the development of the productive forces regardless of the capacity of the market to absorb the output; a contradiction that results in recurring overloads and blockages in the circuit of capital (i.e. overaccumulation). Predictably, when crises of this sort arise, firms struggling to secure a turnover will try to eschew their losses by getting rid of their assets. But equally likely is that, as soon as the first signs of overaccumulation appear (i.e. thinning profitability), capitalists will manoeuvre in anticipation of the coming shock. Here, Harvey's work introduces an important corollary: to deflect the effect of coming crises, capital accumulation 'switches' between circuits of accumulation. The tempo of these switches form the backbone of Harvey's theory of the urban process under capitalism: the acceleration of investment in the built environment is a manifestation of mounting overaccumulation elsewhere in the economy.

The switch between circuits forms part of Harvey's broader notion of the '*spatial fix*', later expanded to '*spatio-temporal fix*', a concept that seeks to flesh out the ways in which capital displaces or delays the effects of overaccumulation. The term 'fix' has a double meaning here: on the one hand, the switch to the built environment implies that investment flowing out of the primary circuit becomes 'literally fixed in and on the land in some physical form for a relatively long period of time' (Harvey, 2003:115). On the other hand, the fix also implies a temporal solution to problems of overaccumulation building up in the primary circuit. Of course, these fixes are neither simple nor automatic and require a considerable intervention by finance to syphon capital out of one circuit and funnel it into another. In other words, the mechanics of Harvey's model presuppose the existence of a functioning capital market or a state willing to finance and guarantee investments in the built environment. Together, these mediating institutions form the 'collective nerve centre' of capital accumulation and any considerable alteration in these structures will predictably affect 'both the volume and direction of the capital flows by constricting movement down some channels and opening up new conduits elsewhere' (Harvey, 1978:107). However, chronic overaccumulation is bound to build up in the built environment too (e.g. housing bubbles), leading to short-circuits in the collective nerve centre that will manifest as

banking crashes or as public debt crises.

The adaptation of Harvey's schema to the Spanish experience could be summarised as follows: (1) The story begins with a crisis in the primary circuit of accumulation: the exhaustion of the wave of industrialisation of the 1960s. In this period, the dictatorship of General Franco (1939-1975) embarked upon a policy of French-style plans of industrial development that was styled as 'developmentalism' (*desarrollismo*). After more than a decade of extremely fast growth – 7% GDP growth between 1961-1974 – the country succeeded in climbing up the value chain by developing an industrial base around the production of automobiles and electrical appliances (Amodia et al., 1998; Catalán, 2003). The speed of these advances owes to the initial backwardness of Spanish industry, which imported obsolete equipment from Western Europe to catch up with its neighbours at a breath-taking pace. This 'leapfrogging' process ran out of steam during the stagflation crisis of the 1970s and was followed by de-industrialisation efforts in the coming decade.

The crisis tends to be framed as an outcome of the inherent contradictions of this wave of industrialisation: '[it] was always doomed to failure' (Charnock et al. 2014:44). Writing from a regulationist perspective, López & Rodríguez (2010:137-142) argue that the root of the problem was that Spain embarked upon a project of Fordist mass production without the stabilisers that elsewhere supported this regime of accumulation.⁸ Without a system of high wages and collective bargaining to ensure that labour could act as a domestic market for mass produced goods, Spanish Fordism always carried a fragile dependence on foreign demand that was quickly shattered when the stagflation crisis ravaged its markets abroad. Charnock et al. (2014:35-58) put it slightly differently: rather than Western-style Fordism, Francoist developmentalism would have displayed features much closer to that of Latin American Import-Substitution Industrialisation (ISI).⁹ The comparison with Latin America arises from a shared reliance on ground-rent extraction and the exploitation of irreplaceable geographical factors in order to transfer resources to the nascent

⁸ 'Fordism' denotes a specific social formation (or *mode of regulation*) incubated in the United States during the interwar years that then spread to Western Europe in the midst of post-war reconstruction (Harvey, 1991). It denotes a social pact by which industrial capital and proletariat strike a class compromise to exchange high wages, full employment, and social provision for high levels of effective demand and diminished unrest, something that temporarily suspends the social contradictions of capitalist accumulation (Aglietta, 1998).

⁹ ISI refers to the developmental strategies that became popular amongst late industrialisers in the post-war period, often in the Global South but also in the authoritarian states of southern Europe, to escape their dependence on manufactured imports and overturn their 'peripheral' status in the world economy. The ultimate objective was to nurture an autochthonous industrial base with the aid of tariffs, import controls, fiscal policy, and public finance (Kiely, 2007:52).

industrial sector (Charnock et al., 2014:38). In Spain, this happened through the exploitation of the Mediterranean coast as a magnet for northern European tourism to secure the foreign reserves needed to purchase industrial equipment abroad. In any case, the upshot of the argument remains fairly similar in both cases: due to the deficits of its industrial base, Spanish industrialisation had to be balanced with external lifelines and was thus particularly exposed to the recession that hit its trading partners in the mid-1970s.

(2) When the primary circuit of accumulation faltered, the secondary circuit kicked in. There are two different interpretations of this process. (a) *The fix as cyclical phases of accelerated investment in the built environment*. This is the account put forward by Charnock et al. (2014, 92-93), which most strictly follows Harvey's schema. For these authors, long-term industrial decline has triggered three 'fixes' since the 1970s, each occurring in the crest of increasingly shorter business cycles, anticipating and delaying downturns in the primary circuit. The first (1969-1974) overlapped with the final years of developmentalism, when urban areas sprawled uncontrollably to accompany the needs of a (still) booming industrial base. Following a weak industrial recovery, the second (1986-1992) kicked in with the influx of capital that came with Spain's accession to the European Single Market, a process that resulted in the inflation of a housing bubble. Finally, the third fix (1997-2007) was the large housing bubble that burst with the global financial crisis. (b) *The fix as a single continuous process*. Most authors are less orthodox in their application of the capital switching framework, and rather than cyclical surges, they tend to characterise the focus on the built environment as a constant feature of Spanish capitalism since the 1970s (Delgado, 2011; López & Rodríguez, 2010, 2011a, 2011b; Coq-Huelva, 2013). According to this second reading, the switch coalesced around the 1980s, when the state assumed a more active role in channelling investment into the real estate sector. A pivotal measure in this process was the so-called 'Boyer Decree' of 1985, which provided strong fiscal incentives for home-ownership in an effort to stimulate the housing market (López & Rodríguez, 2011a). Over the years, the state marginalised alternative forms of tenure (e.g. rent, social housing) and designed land-use policies in an effort to create a good business climate to attract private investment.

(3) The functioning of the secondary circuit was mediated by competition between the local scales of the state. The collapse of General Franco's centralised state in the late 1970s was followed by a constitutional restructuring that created a federal liberal democracy. The management of the built environment was devolved to a multiplicity

of political nodes. For example, each regional parliament was put in charge of legislating its own land-use regulations and local councils gained the capacity to exact different property taxes. These new scales of the state became units of inter-urban and inter-regional competition. López and Rodríguez (2010:331-354) capture this process by borrowing Harvey Molotch's notion of the 'growth machine' (1976; with Logan, 2007), which conceptualises the alliances formed between public officials and business interests to turn their areas into spaces attractive for capital investment. However, other authors (Charnock et al., 2014; Coq-Huelva, 2013:1214-1219) prefer to conceptualise this dynamic through David Harvey's own notion of 'urban entrepreneurialism' (2001 [1989]), which includes other aspects of urban governance into the process of inter-urban competition, with a particular emphasis on 'local boosterism' efforts. Delgado (2011) strikes a similar note in her stress of the importance of cultural infrastructure in this process (e.g. gentrification, museums, theme parks). Coq-Huelva (2013:1217-1219) has added a layer of Foucauldian 'governmentality' to this analysis, arguing that the new scales of the state became sites for the creation and reproduction of subjects well-suited for neoliberal patterns of accumulation in the built environment.

(4) The secondary circuit was boosted by developments in European integration and in global finance. On this point, authors working within this paradigm tend to intersect with the core-periphery narrative. For instance, Charnock et al. (2014:58-81) argue that European integration entrenched the Spanish economy in an increasingly peripheral position within the international division of labour that emerged after the crisis of the 1970s. Entry into the common market accelerated the decline of manufacturing in exchange for large waves of foreign investment that ended up in the real estate sector. A similar supporting role is reserved to 'financialisation' and the diffusion of mortgage-backed debt as a mechanism of demand management (López and Rodríguez, 2010:85-108). For Coq-Huelva (2013:1226), the clientelist practices associated with Spanish urban entrepreneurialism 'can only be understood in the context of a marked affluence in financial resources'. Capital markets abroad became a major source of wholesale finance for the *cajas*, which then channelled cheap credit towards construction companies and mortgage loans. In turn, regional politicians would use real estate development for local boosterism, selectively 'chang[ing] land designations in agreement with developers who had close relations with financial agents', usually from the local *caja* (Coq-Huelva, 2015:1222).

1.4. Representing the Political: A Critical Review

For all the differences between these narratives (Table 2), they all share a deficiency in their lack of representation of the political – the way in which power struggles shaped the Spanish path into the crash – even if for different reasons. In what remains of this chapter, I will trace the limits of each narrative to its theoretical underpinnings, assessing how this affects its perspective of the Spanish debacle.

TABLE 2. SYNOPSIS OF THE THREE NARRATIVES

	<i>Immaturity Narrative</i>	<i>Core-Periphery Narrative</i>	<i>Spatial Fix Narrative</i>
<i>Sources of Crisis</i>	Endogenous; domestic weaknesses	Exogenous; macroeconomic imbalances	Endogenous; generic mechanics of capital accumulation
<i>View of the Eurozone</i>	Defective, due to a lack of convergence	Defective, due to a lack of coordination	Aggravator of domestic imbalances
<i>Role of Historical Institutional Legacies</i>	National pathologies	Competitive advantages/ disadvantages	Policies assisting the transfer of capital into the built environment
<i>Role of Political Agency</i>	Distortion of the market economy	Domination of the periphery/ management of competitiveness	Enforcement of the switch between circuits of accumulation

1.4.1. Against Immaturity: The Pitfalls of Neoliberal ‘Politics’

The immaturity narrative has a complicated relationship with the political due to the neoliberal doctrines that underpin this paradigm. Like classical liberals before them, neoliberals exalt the virtues of ‘the market’ and are highly suspicious of political agents, narrowly defined as non-market actors (trade unions, bureaucrats, policy-makers, etc.), which they accuse of being ‘irrational, self-serving, [and] blind to the merits of competition’ (Davies, 2018:275). Yet, the paradox is that this libertarian suspicion is coupled with the

admission, contrary to classical liberal doctrine, that their vision of a good society will triumph only if it becomes reconciled with the fact that the conditions for its existence must be *constructed*, and will not come about “naturally” in the absence of concerted political effort and organisation (Mirowski, 2013:53).

‘The political’ thus constitutes a dangerous but necessary evil, something neoliberals can live neither with, nor without (Peck, 2008). Neoliberal thought allocates to the state important functions in the defence of the market order, such as enforcing property rights and anti-monopoly regulations. But to prevent ‘political’ distortions, it becomes imperative to re-imagine public institutions ‘along competitive principles where possible, reducing the state’s monopoly power’ (Davies, 2018:278). This seeks to curtail the discretionary powers of political actors, but also to protect the market from the masses, for whom the benefits of competition are often invisible and who are prone to getting carried away by populist demagoguery. In short, for optimal efficiency, the rules of competition should be placed out of reach of the whims of democracy, beyond the scope of ‘the political’, and confined to the cold reason of technocracy.

This political theory runs through the immaturity narrative in all its forms. Its inspiration is plainly evident in its proponents’ diagnosis of the crisis, which identifies the PIIGS as pathological market economies distorted by politics. Indeed, there is a strong continuity between post-crisis immaturity theories and the pre-crisis complaints of Europe’s neoliberal elites, who often expressed their ‘frustration at their own *inability* to achieve what were routinely referred to necessary welfare and labour market reforms’ in the formative stages of the Eurozone (Bailey, 2017:8). In this period (1985-2007), the efforts to coordinate disinflationary policies via deficit reduction, and to increase productivity in the workplace via labour market flexibilisation, were regularly floundered by a myriad of ‘political’ reasons, such as working-class unrest.¹⁰ This view lives on in the technocratic lamentations of immaturity accounts, which regularly note that governments know what reforms are necessary, but can only hope to ‘muddle through’ them (The Economist, 2010). Carlo Bastasin (2012) has gone as far as to argue that the problems of the Eurozone lie in the nation-state itself, as

¹⁰ It is also worth noting that this same period saw a parallel experimentation with such ‘structural reforms’ in the laboratory of the Global South. In the aftermath of the debt crises of Latin America, the Bretton Wood Institutions (i.e. International Monetary Fund and World Bank) became the enforcers of neoliberal reform through ‘bailout’ packages: the so-called ‘structural adjustment programmes’ (Kiely, 2007). In many ways, the discourses and practices rolled out to address the European crisis continue this tradition folding back upon the Global North.

domestic political elites would have not side-lined their convergence commitments were it not for the pressures of their domestic electoral cycles. Needless to say, the neoliberal conception of 'the political' is also patent in the technocratic solutions upheld by proponents of immaturity, including the constitutional depoliticisation of deficit caps cited earlier.

In turn, this neoliberal conception of the political underpins the unilineal conception of development at the heart of immaturity theories. Like modernisation theory during its heyday (e.g. Parsons, 1964), immaturity accounts look at internal factors preventing backward countries from replicating the patterns of development of advanced nations, in this case exemplified by Germany. Whereas in the mid-twentieth century the idea of 'modernisation' was associated with industrialisation and the welfare state, in recent decades the standard of progress has become re-centred around policies associated with neoliberal globalisation (Streeck, 2010; Srnicek & Williams, 2016). Deviance from the norm, as exemplified by the European PIIGS, is assumed to be a consequence of political distortions preventing the full realisation of the free market. The insistence to blame the ills of the Eurozone on a failure of convergence rests upon the fallacious perception that politics is a nuisance to economic development. This assertion is only possible when looking at economic relations in the petri dish of economics, a discipline founded on the assumption that the laws of the market can be separated from the impurities of the political. But once we look at economic relations beyond this controlled environment, the modernisation model of immaturity narratives quickly breaks down. As McNamara (2015) reminds us, no monetary union has ever been built – nor has been attempted to be built – upon optimum technicalities. Currency unions are not antiseptic experiments, but messy political projects built with political objectives in mind. Only a quick look at the historical record shows how time and time again successful currency areas, from the informal Deutschmark-zone to the current dollar-zone, have been sustained despite highly heterogeneous foundations (Varoufakis, 2015:254). In short, the standard of modernisation expected by immaturity accounts is often an impossible one.

But this biased view of the political conceals an even greater problem: contrary to their assumptions, there is nothing to suggest that political distortions and market success are incompatible. Within the field of corruption studies, a body of literature specialised in the highest of all political distortions, recent studies suggest that political corruption is not a hindrance to economic development (Okada & Samreth, 2014; Huang, 2016), and some have even gone to the chilling length of suggesting that it may even facilitate

it (Uberti, 2016). To denounce the Spanish *cajas* as institutions always bound to self-destruct is an easy post-fact reconstruction. But for all the corruption they festered, even economists admit that ‘up until the current crisis the savings banks had achieved very satisfactory results’ (Vives, 2012:48). Unlike the savings banks of other countries, the *cajas de ahorros* successfully weathered the pressures of financial disintermediation and, for decades, ‘wrestled market share away from the banks, maintained high levels of profitability, and under(took) significant amounts of community work’ (ibid.).

Moreover, the same distortive political dynamics that immaturity theorists identify in the periphery are also to be found in the core. One ought to look no further than Germany itself. Like the Spanish, The German state is highly decentralised, in which considerable economic functions are devolved to sixteen federal governments and hundreds of local councils, each one equipped with a semi-public savings banks of their own (*Sparkasse*). The structure of the German *Sparkassen* is remarkably similar to that of the Spanish *cajas*: put simply, local politicians are allowed to handpick executives into their boards, granting them a great degree of influence over their operations. Much like the *cajas* used to do in Spain, there is robust evidence that these institutions systematically pump finance into the economy ahead of local elections so that their political patrons can reap the electoral benefits of this process (Englmaier & Stowasser, 2017). Moreover, oversight of the *Sparkassen* is performed by a handful of regional public banks (*Landesbanken*), which already in the run-up to the crisis were known for their ‘long history of corruption and mismanagement’ and their tendency to invest ‘in seemingly every bad asset that came their way’ (Ewing, 2013). It is also noteworthy that the German financial system required an enormous amount of public capitalisation during the crisis. It appears that the main difference between Spanish and German banks is that ‘German banks have benefited from a strong national economy. They have not had to cope with as many bad home loans and have generally not had trouble raising money to lend to their customers’ (ibid.). Perhaps the real question, then, should be: why did Spain inflate a destructive property bubble and Germany did not?

This takes us back to the research questions outlined earlier: Can the immaturity narrative explain the differential features of the Spanish path into the crisis, such as *the wave of residential overproduction that accompanied the housing bubble*? The answer is no. Immaturity accounts remains too committed to a unilineal conception of economic development to take seriously the question of why ‘divergent’ paths of

development happen – these are generally seen as deviances caused by ‘political’ distortions. This neglect, in turn, has a negative knock-on effect on the other sub-questions of this thesis: the immaturity narrative offers a caricatured picture of *political drivers of asset-price inflation* underpinning the bubble, it neglects the *historically-specific factors* of the Spanish pathway to the crash, and fails to provide an accurate depiction *the particularities of Spanish capitalism* within global financialisation.

Ultimately, all these problems stem from an almost cartoonish representation of ‘the political’ – a realm that is said to be separate and inherently distortive to an otherwise perfect market economy. This narrow representation serves to enshrine market competition as the solely acceptable form of struggle and to delegitimise alternative forms of struggle as an abnormal nuisance (e.g. electoral competition). While this arbitrary distinction may be convenient for the objectives of neoliberal technocracy, the idea that ‘the market’ could ever exist without the assistance of non-market logics is a fantasy that does not hold up to scrutiny.

1.4.2. Against Core-Periphery Analysis: Blind Spots for Peripheral Difference

The core-periphery narrative is a confluence of much more diverse intellectual sources than the immaturity narrative. At least three different theoretical lineages can be identified in this story: (a) *dependency theory*, (b) *varieties of capitalism*, (c) *post-Keynesian economics*. (a) *Dependency theory* sinks its roots in a mid-twentieth century Marxist-inspired critique of modernisation theory, which its proponents accused of being founded on the false promise that all economies can achieve ‘development’. On the contrary, foundational to dependency theory is the belief that the development of the global economic core is inversely proportional to the underdevelopment of the global periphery (Frank, 1966). This inequality is perpetuated over time through the structures of world trade, which reproduce the periphery’s subordination to the core’s commercial and financial power. (b) The *varieties of capitalism* approach emerged from an institutionalist critique of modernisation theory in the age of globalisation (Hall & Soskice, 2001). Writing at the turn of the millennium, this approach argued for the continued success of economies less influenced by Anglo-Saxon neoliberalism, seeking to demonstrate ‘a coincidence of moral and economic virtue in national economic systems’ and the ‘opportunity to choose a more humane alternative to Anglo-American standard capitalism’ (Streeck, 2010:15). Identifying two main typologies of capitalism – the famous distinction

between 'liberal market economies' and 'coordinated market economies' – each one is said to be equipped with a different set of institutional complementarities and comparative advantages. (c) *Post-Keynesian economics* refers to a tradition of Keynesian thought that refused to blend with neoclassical economics in the mid-twentieth century. Unlike its neoliberal cousin (i.e. new Keynesianism), it continues to emphasise 'fundamental uncertainty as a pervasive feature of a capitalist economy', and 'uses a class-analytic macroeconomic framework' (Stockhammer, 2016:366). Central to the post-Keynesian approach is a focus on effective demand, which its theorists use to model growth regimes, as well as the tendency of economies to be driven into debt and liquidity over-hangs.

What unites this theoretical diversity into a shared narrative is an 'exogenous' approach to the causes of the Euro crisis: the idea that the crisis of the European periphery has its sources in external economic imbalances occasioned by a macro-structural relationship between different economic regimes, all mediated by the fiscal straightjacket of the monetary union. Varieties of capitalism theorists look at how the coordinated economies of the north have outcompeted the Mediterranean economies of the south. Dependency Marxists look at how the core uses its structural power to subjugate the periphery to its commercial and financial prowess. Post-Keynesians look at how the exporting economies of the north dumped their surplus capital onto the indebted economies of the south. Though emphases vary, the main takeaway here is that the financial crises that ravaged the edges of the continent should be primarily understood as a function of external macro-level structures.

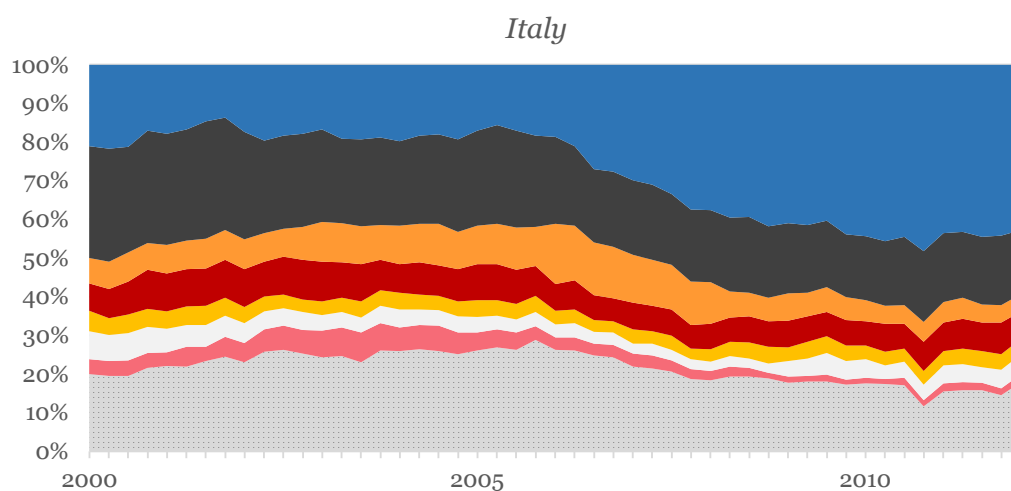
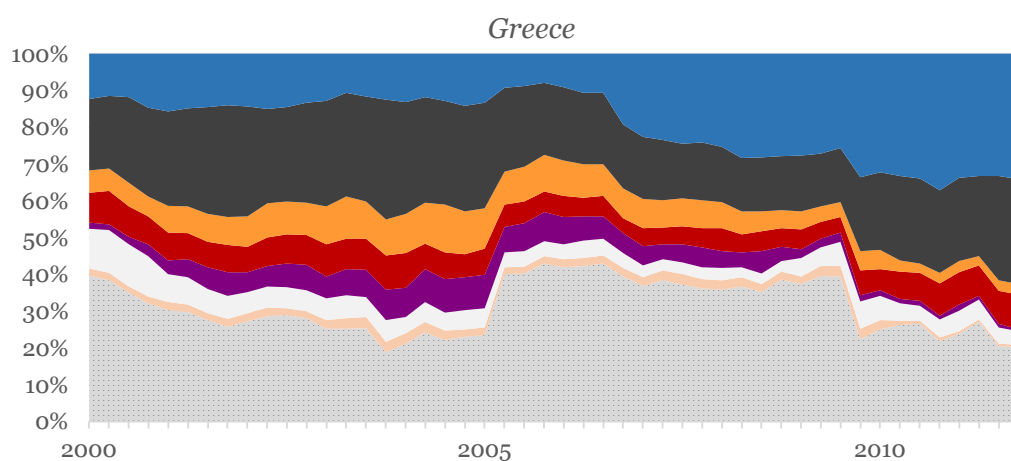
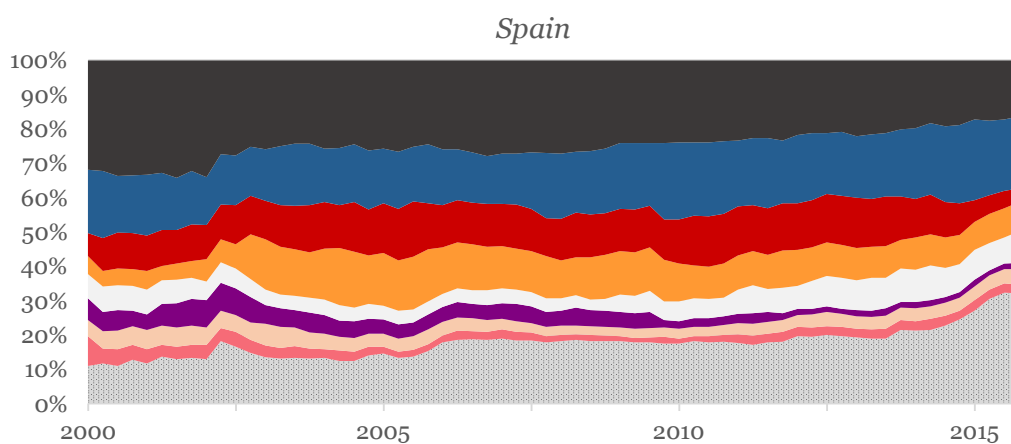
The problem with this perspective is that it tends to ignore the domestic specificities of each country. This is most patent in dependency and post-Keynesian approaches, for which the crisis of the European periphery 'landed from the sky', so to speak. Both takes insist that the housing bubbles that formed in countries like Ireland or Spain should be seen as knock-on effects of the core's trading surpluses, which were recycled in the form of capital exports to the periphery. That the resulting burst of cheap finance would translate into housing bubbles in home-owning societies like those of the periphery, where property is in high demand, admittedly makes sense. But this does not explain the patterns of residential overproduction that these countries experienced, as house-price bubbles are traditionally sustained by a scarcity of residential supply (e.g. the UK; see Watson, 2009). Another question begs answering: why did other peripheral countries, like Portugal or Italy, not experience analogous construction booms of their own?

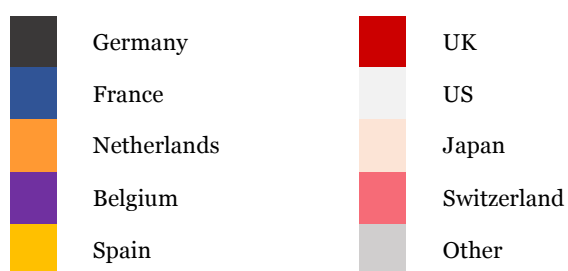
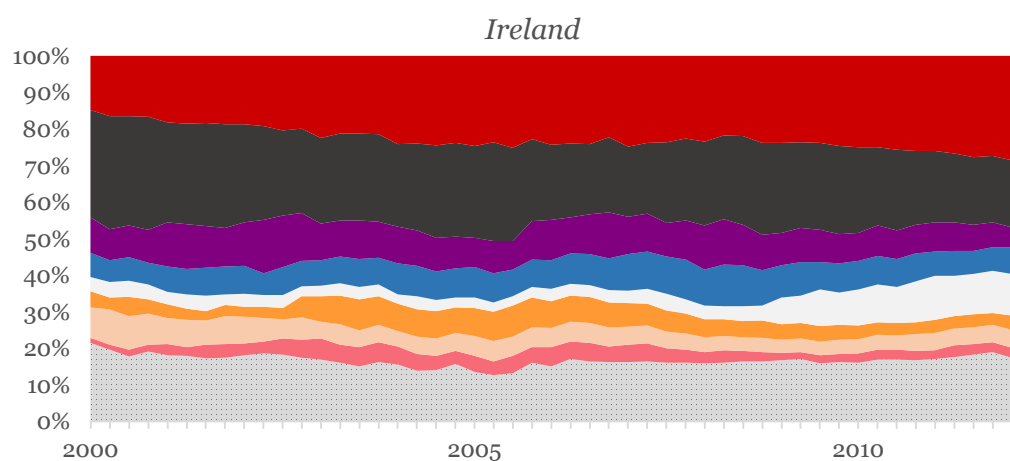
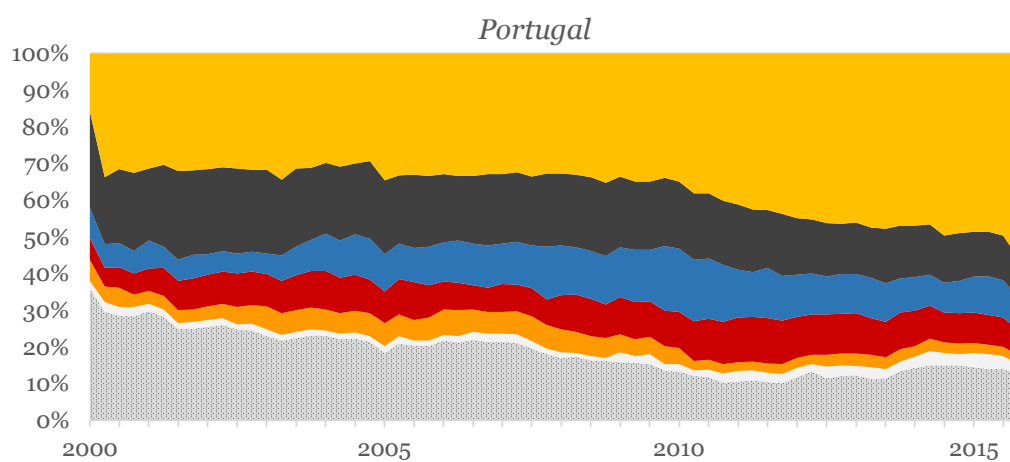
The inability of this narrative to represent peripheral difference is further captured by the fact that this model, by which the periphery's debt originates from the trading surpluses of the Eurozone's core, only holds up if one measures the periphery in aggregate. Once we unpack the periphery into its constituent countries, we see substantial differences in the origin of their foreign claims (see Fig.5). The core-periphery model fits the Spanish and Greek cases best, but only if one considers France to be part of the Eurozone's core – which, as we have seen, most authors do not. At first glance, the Italian case suggests a similar debt structure, but one must remember the notable self-reliance of Italian finance: even at the height of the Euro crisis, Italy's foreign debt to GDP was still smaller than that of Germany, and around two thirds that of France (BBC, 2011). In the case of Ireland, most foreign finance comes from a non-Eurozone member state, and, in the case of Portugal, from Spain, another peripheral country, disturbing the script core-periphery dynamics altogether. Perhaps Spain's financial dependence on the core is more an exception than the norm?

The problem of representing domestic histories is also patent in the case of the varieties of capitalism approach, particularly given its well-known limitations in capturing social change (Hancké, 2009:6-12). These issues stem from its 'ideotypical' method. The varieties approach identifies the functional equilibria underpinning different institutional formations and classifies them into purified, heuristic typologies (Jessop, 2014). The problem is that these taxonomies are 'still shots' of history, reified representations of a temporary equilibrium that tends to conceal the fundamentally processual nature of social institutions. Symptomatic of these limitations is the insistence of some of its theorists to continue describing Germany as a 'coordinated market economy', something that, given how the German economy has become the bastion of neoliberal Europe in the meantime, has raised eyebrows even amongst some of the earlier adherents of this approach (Streeck, 2010). It should also be noted that the criteria informing the original criteria chosen to distinguish between 'liberal' and 'coordinated' market economies excluded housing altogether.¹¹ This prism renders us blind to the dynamics of residential capitalism and thus seems of little help in explaining the particularities of cases such as the Spanish.

¹¹ Ahead of the meltdown of residential capitalism, Schwartz and Seabrooke (2009) crafted a typology of 'varieties of residential capitalism'. Their purpose was not so much to explain the crisis as it was to craft a new taxonomy and thus they have not been included in this discussion. Their new taxonomy classifies residential capitalisms along the axes of owner-occupation and financial structure to create four ideal-types of housing regimes. Suffice to say that Spain is classified as a 'familial' regime, with high levels of ownership but, supposedly, with low levels of commodification (i.e. reliance upon mortgage-backed debt). An important detail is airbrushed out of the picture: Spain was the second largest issuer of mortgage-backed securities in the Eurozone when the crisis struck. The problem of representing specificity remains.

FIG.5. FOREIGN CLAIMS OF PERIPHERAL BANKS BY COUNTRY OF ORIGIN





Source: Bank of International Settlements

Note: Due to the highly fragmentary data after 2012, the graph has been cut short for Greece, Ireland and Italy. The data from France of Q4 2010 Q4 was missing – the data for this quarter has been patched up by averaging out the data of 2010 Q3 and 2011 Q1.

If, as the old saying goes, history is past politics and politics is present history, then one can read into this incapacity to represent peripheral history an inability to take peripheral politics seriously. As Bailey et al. (2017:16) note, the Marxist core-periphery narrative tends to overstate the European Union as a site of domination, eliding moments of working-class resistance on the ground. The same could be said about the representation of core-periphery dynamics: like the mid-twentieth century theories that preceded them, dependency accounts of the Euro crisis leave very little analytical space for the political agency of the periphery other than that of partaking in its own domination. In the case of the varieties approach, the problem of representing political agency arises from its rational-functionalist bent (Streeck, 2010:21-25). This tradition confines its view of the political to (state) interventions seeking to optimise the framework within which firms pursue their competitive strategies. Inevitably, this tunnel vision reduces the complexity of politics to a managerial function. It is highly symptomatic of this difficulty to grapple with the political that an important detail has eluded all core-periphery approaches: the Spanish property boom began in 1997, prior to the formation of the Eurozone, on the back of a highly controversial piece of land-use legislation. As it will be shown, this institutional innovation was the result of a long history of struggles between groups and classes, and was built upon a century of urban planning institutions without parallel in Europe.

This takes us back to the research questions of the thesis. To reformulate the main question in a manner that is tailored to this narrative: If the Spanish crash can be explained by looking at the external economic imbalances afflicting the European periphery as a whole, then why did the Spanish path into the crisis manifest in such a unique a way, namely, *as a wave of residential overproduction*? This narrative seems unable to provide a convincing answer to this question, a silence that also leaves the auxiliary research questions unanswered. If the bubble was inflated ‘from above’, i.e. by exogenous economic forces, then what room is there to accommodate domestic *political drivers of the bubble*? Does not the timeline of the Spanish bubble, which began prior to the formation of the Eurozone, suggest that there were *historically-specific factors at play*? Are there no relevant *particularities to Spanish capitalism* to take into account in this story?

The inability of the core-periphery narrative to address these questions arises out of its depiction of the political, which subordinates the contingencies of struggle to external economic structures. Political agency is either a privilege of the European core, which uses it to subordinate the periphery by hollowing it out of any of its own, or it is

assumed to fulfil certain managerial functions to navigate the pressures of monetary integration in a particular way. Either way, conclusions about the European periphery are derived from the macro-structural plane (in this case, the Eurozone) but without substantial treatment of the social formations that make up the periphery. In the end, politics – past and present – can be safely ignored.

1.4.3. Against the Spatial Fix: The Limits to Structural Reasoning

David Harvey's elaborate theoretical framework, the central thrust of the spatial fix narrative, should be contextualised within the debates out of which it emerged. First, his theory of capitalist urbanisation should be read against that of the Marxist philosopher Henri Lefebvre. Theorising the advent of a post-industrial urban society, Lefebvre had reached the conclusion that there was no 'strict correspondence between modes of production and the space they constitute' (quoted in Katznelson, 1994:96). Harvey challenged Lefebvre's abandonment of capitalism as a frame for urban inquiry and instead sought to bring the mode of production back into the analysis of the 'urban process'. This culminated in the philosophical system outlined earlier, through which Harvey theorised that the built environment acted as a pressure valve for excess capital piling up elsewhere in the economy.

Second, it is important to note that Harvey embarked on this project by emulating the logical-abstract method of Marx's *Capital*, which deploys a deductive form of reasoning to elucidate the 'laws of motion' of capital accumulation. This project was very much in line with the dominant trend in Marxist theory at the time, structuralism, a tradition built upon the conceptual separation between abstract economic structures and actually-existing history (e.g. Althusser, 2005 [1965]). Though I shall deal with structuralism in greater detail in the next chapter, for now it suffices to say that this philosophy focused on developing sophisticated, if highly mechanical, models of the economic structures at work under capitalism, all while admitting that these structures only existed in a Platonic realm of pure theory. Their only purpose was the 'rigorous' exposition of the deep, internal logic of the capitalist mode of production. By contrast, actually-existing social formations were said to be capable of combining multiple modes of production and thus seen as inherently disorderly and irreducible to structural determinations.

From this modelling emerges a duality between heuristic devices, such as the 'mode of production', and messy historical subjects, such as class struggle, which are confined

to separate analytical realms (Wood, 2016:49-52). In the work of Harvey, this separation manifests in constant ‘quantum leaps’ between instances of supreme structural functionalism and invocations of agency and contingency (Knafo, 2002:147-9). Within the same text, one can find that the advent of the spatial fix recurs every 15-25 years, like a tide moving with the gravitational pull of celestial bodies, only to discover shortly after that ‘the broad lines of class struggle around the “housing question” have had a major impact upon the urban process’ (Harvey, 1978:116,126). The problem is that whenever these two spheres (i.e. structural determinations and agential contingency) are coupled again, the resulting combination tends to come with a powerful deterministic skew. For instance, Harvey asserts that the state is an active field of struggle and that capitalists may not always resort to switches between circuits with equal vigour, for this will depend ‘upon the degree of their own organization, the institutions which they have created and the objective possibilities dictated by the state of production and the state of objective possibilities dictated by class struggle’ (Harvey, 1976:107-108). Yet soon enough we are told what this truly means: that an alteration in the mediating structures of the switching circuits (e.g. the state) ‘can therefore affect both the volume and direction of the capital flows by constricting movement down some channels and opening up new conduits elsewhere’. In short, ‘in order to make possible the analysis of history from the viewpoint of theory’, the result is merely a supremely deterministic model ‘which is only later somewhat “adjusted” according to class struggles’ (Knafo, 2002:147-9). Harvey’s philosophical system constitutes a formidable thought experiment of impeccable logic, but much like the neoliberal economists considered above, it misses the fundamental point that the political is ‘an immanent necessity for every capitalist economy, without which the latter could not appear as a “closed” and self-reproducing system’ (Jessop, 2006).

The lure of Harvey’s schema to explain the Spanish case makes sense. Its focus on the subterranean mechanics of capital accumulation allows for an ‘inside-out’ perspective to supplement the externalism of core-periphery approaches. After all, the Spanish housing crash would hardly be intelligible without long-term domestic determinations that predate European integration. Yet, paradoxically, the theoretical formula of the switching crises carries an in-built negation of historical specificity, since, in the final analysis, the story boils down to the universal laws of motion of capital accumulation.

Some of the proponents of the spatial fix narrative have taken provisions against the limitations of Harvey’s perspective (see López & Rodríguez, 2010:120-3), but have had little success in escaping the pitfalls of its gaze. On the one hand, we see how the

succession of eras in capital accumulation are largely determined by the internal logic of the mode of production, airbrushing social agency out of the picture. Whichever conceptualisation is chosen to describe the last wave of fascist industrialism, the point remains that the crisis of manufacturing of the 1970s was largely a result of the system's own structural contradictions. Growing agitation for better wages and living conditions in the 1960s, and its consequent impact on the rate of profit on capital, have no role to play despite sabotaging the main input of the industrial economy under Spanish fascism: a tame and super-exploited workforce. On the other hand, we also find that historical events are picked on a relatively *ad hoc* manner so that they fit the formula. The spatial fix narrative insists that the turn to real estate speculation grows out of the crisis of the manufacturing sector, a process that the state manoeuvred to assist and facilitate. However, the lack of mention of the housing shortages of this period is extremely suspicious. After peaking in 1975, home construction entered a 25-year period of decline, and the creation of a good business climate in real estate had much to do with attempts to overturn this long crisis. The land law of 1997-8, which kicked off the bubble, was not a mere infrastructural reflex, but the culmination of nothing less than a quarter of a century of policy experiments in this regard.

Another important omission of the political in this narrative is the absence of the very real role of clientelism in real estate politics. Over the last decade and a half, Spanish politics has been shaken by a relentless cascade of corruption scandals, the majority of which have radiated out of local councils. Revealing widespread illicit connections between local bureaucracies, construction firms, and political parties, the picture that emerges is that of an 'iron triangle' of real estate at the centre of the Spanish economy. Yet, political corruptions rarely figure in this literature. Whereas López & Rodríguez (2010) award the term 'corruption' only a few passing mentions in their monolithic study, Charnock et al. (2013) do not mention it even once in their book. In general, on the rare occasions that corruption is cited in this literature, it tends to be described as a consequential phenomenon. In line with the functional bent of this paradigm, for López & Rodríguez (2010:254) the 'overabundance of corruption cases over the last years is only the extra-legal ramification of [a] mutual dependence' between corporate agents and local governments, whereas for Coq-Huelva (2013:1223) corruption is merely 'the outcome of a failed institutional design based on neoliberal governmentality'. This fails to see that political corruption was not a tangential effect of the bubble that was only externally related to its logic. The Spanish bubble could have hardly occurred without the discretionary role of local councils in determining land values, the role of construction firms in providing illicit finance to political parties

holding local power, and the use of this bribe money by political parties to commit systematic election spending fraud in an attempt to renew their grip over public office. In the midst of these power flows, ‘economic’ accumulation became inseparable from a parallel process of ‘political’ accumulation. How many infrastructural projects were approved just so that political parties could raise cash for their elections? How much would have home prices risen were it not for the deliberate inflation of land values?

This takes us back, once again, to this thesis’ research questions. If the Spanish crash is the product of *generic* laws of capitalism, then why did it manifest in such a *unique* way – with a housing bubble accompanied by a wave of residential overproduction? The lack of an answer to this central question has a rippling effect on the remaining research questions. Does the peculiarity of the Spanish experience not suggest that there may be *particularities to Spanish capitalism* that are irreducible to structural pressures universal to capitalism? Is there room in this framework to integrate the role of *political agencies in the inflation of the bubble* beyond the functional script of the switching circuits? Indeed, is there room to accommodate *historical specificity at all* in this narrative?

The difficulty of answering these questions arises out of a problematic representation of the political. The spatial fix narrative starts from the assumption that ‘the economic’ can be thought of as a closed system in which the political provides extrinsic assistance to an otherwise self-propelling circuit. This representation of social structures as self-reproducing entities results in an inevitable erasure of the role of power struggles in their constitution and operation. In turn, this results in a neglect of historical specificity, as particular outcomes can simply be read from generic laws of causation that are structurally determined. Paradoxically, then, the political has a more prominent role in the immaturity narrative than in the spatial fix narrative (or in the core-periphery narrative, for that matter), as at least neoliberalism reserves to the political some sort of agency, even if in its own caricatured way.

1.5. Conclusion

A critical review of the three narratives suggests that they all display important limitations to represent ‘the political’ – the way in which power struggles shape social structures – a problem that renders invisible important facets of the Spanish experience. The *immaturity narrative* traces the source of the Spanish crisis to structural weaknesses arising from political distortions of the market. According to

this view, these irregularities stem from deep-seated pathologies that have prevented Spain – and peripheral countries in general – from converging with the standard of more advanced European economies. This narrative is incapable of grasping how politics – corruption included – is immanent to the functioning of the market itself, offering a warped perspective of the crisis that serves to confirm neoliberal theses, but that lacks analytical depth. The *core-periphery narrative* outsources causal primacy to external macroeconomic imbalances. These imbalances are ascribed to the failures of European monetary integration and to the interrelationship between different economic regimes coexisting under its roof. The problem with this narrative is that it reduces the crisis of the European periphery to the intervention of exogenous forces, seemingly fallen from the sky. In the process, peripheral difference – and with it domestic politics and history – are blurred out of the picture. The *spatial fix narrative* traces the origins of the crisis to endogenous sources, concretely to the buried mechanics of capital accumulation, which are said to have a tendency to push capital into the built environment to escape pressures of overaccumulation mounting elsewhere in the economy. Here, the problem is a tendency to abstract politics and history away from the structural logic of capitalist accumulation, something that encourages the consideration of ‘extra-economic’ features on a relatively *ad hoc* manner.

Reached this point, the main research question of the thesis needs to be revisited – *Why did the Spanish path into the crisis manifest as two seemingly contradictory processes: as a house-price bubble and as a wave of residential overproduction?* Not only do all three narratives fail to answer this question, but, due to the inadequate role that the political plays in these accounts, they also lack the very means to answer it. In the case of the *immaturity narrative*, an insistence on focusing on how the political distorts otherwise optimal paths of economic development results in an inability to grasp historically-divergent trajectories. As a result, the peculiarity of the Spanish bubble is not adequately problematised nor explained – Spain merely had its version of a universal predicament. In the case of the *core-periphery narrative*, the subordination of the political to external economic functions represents the Spanish bubble as a product of Spain’s peripheral position within the Eurozone. In doing so, it fails to grasp the uniqueness of the Spanish construction boom within the European periphery, as well as the domestic political drivers of this phenomenon. In the case of the *spatial fix narrative*, the political appears subordinated to structural determinations that are said to be universal to capitalism. In focusing on generic

structural laws of causation, this narrative fails to problematise the historical specificity of the construction boom of the 2000s, or to understand its political causes.

The limitations of these narratives point to the task ahead: fashioning a narrative of the Spanish crash capable of taking political agency seriously. However, before doing so, I will pose the question of method: how can we rethink existing accounts without falling into the pitfalls of representing the political? This is the purpose of the next chapter, which will argue that this can only be done with a historicist method of analysis.

2. The Political in Political Economy: Theory and Method

2.0. Introduction

The previous chapter has shown how existing narratives of the Spanish crash struggle to accommodate ‘the political’ within their accounts: i.e. how *power struggles* give shape to *social structures*, the formal and informal rules governing social relations. Instead, there is a tendency to focus upon the workings of social structures themselves, which come to be imagined as autonomous entities with a life of their own. This is particularly pronounced in Marxist narratives, which tend to award analytical priority to a macrostructural plane. In some cases, this plane takes on the form of a global economic logic, from which they assume that conclusions can be derived about specific national social formations (e.g. the core-periphery narrative). Indeed, these national social formations can be known even without any substantial treatment of them, as the global logic overrides the petty significance of domestic politics. In other cases, the macrostructural plane assumes the form of a universal internal logic, which can be used as a generic prism to understand phenomena across different contexts (i.e. the spatial fix narrative). Starting out from the conviction that this structural logic is at work, we are encouraged to only look for historical phenomena that befit that logic, making political actors appear as if they were merely acting out a pre-ordained script. Either way, history becomes a rather predictable affair, in which the capacity of political agency to bring unintuitive outcomes is written out from the start. Equipped with this analytical outlook, the analysis of the political is thus surrendered to the neoliberal bent of immaturity narratives. In these accounts, political agency figures very prominently (e.g. pressure groups, informal clientelist networks, elite competition), but only to fulfil the almost cartoonish function of ruining an otherwise perfect market equilibrium.

The question ahead, then, is the following: *how* do we reclaim the political away from immaturity narratives in order to build a Marxist narrative of the Spanish crash around it? This chapter will argue that to award analytical priority to the political requires a commitment to a *historicist method*, one that ‘grounds the historicity of phenomena not in abstract laws, but in specific historically situated social practices’ (Teschke,

2014:3).¹² Rejecting the determinacy of structural laws of causation, historicism gives primacy to the contingencies of the past when explaining the present. Put differently, historicism starts from the premise that ‘the past is unpredictable’, forcing us to thoroughly examine the history of social phenomena before making any claims. In making an active use of historical evidence to *explain* social developments (rather than to merely *illustrate* theory), the gaze of historicism opens up room for the political. In other words, a closer attention to historical contingency enables moments of political agency to be acknowledged and suitably accounted for.

To explore this methodological outlook, this chapter will draw from the critique of structural determinism advanced by an approach known as political Marxism. The epistemic premise of political Marxism is that social structures should not be treated as if they had a life of their own, but as they actually confront the people who must act in relation to them – either by reinforcing, renegotiating, circumventing, or subverting them. The result is a heightened sensitivity for agency and historicity, with a particular focus on power struggles over ‘social-property relations’, and a deep scepticism toward narratives of social change centred around the workings of ‘objective economic forces’.

This methodological exploration is divided into four parts. The first two parts will set the stage for political Marxism by providing some theoretical background to questions of structure/agency and historicity around the Marxist tradition. Indeed, given its lasting reputation for structural determinism, it is necessary to dedicate the first part of the chapter (2.1) to an overview of how Marxists came to extricate the political from their thought, allowing us to identify more clearly where the problems lie. The next section (2.2.) will explore how the political can be brought back in, examining the thought of two prominent critics of Marxist structuralism, Michel Foucault and E.P. Thompson, whose methodological pronouncements will inform my historicist ethic. The third section (2.3) will delve into political Marxism proper. The contributions of this approach will first be outlined along with the historical-sociological debate that gave birth to it: the dispute on the origins of capitalism and Robert Brenner’s famous contribution to it. After teasing out some lessons from its historiographical method, the chapter will then move on to examine Brenner’s relapse into structural reasoning

¹² The choice of ‘historicism’ may seem peculiar given that the concept has very diverse meanings in circulation (Teschke, 2014:3): (1) The term historicism was used by Karl Popper to accuse orthodox Marxism of its teleological conception of history. Though now popular, it must be noted that Popper’s choice of words was highly idiosyncratic at the time. (2) Historicism may also refer to the nineteenth century German historical school of economics (*Historismus*), which emphasised the historical and cultural specificity of economic phenomena and was known for its aversion to abstract theory. (3) The term is also used in the Marxist tradition to refer to theory that prioritises concrete historical contexts over universal laws of development. The definition used here is the latter.

and the historicist corrective provided by Samuel Knafo and Benno Teschke. Altogether, this discussion will serve to provide a basic matrix for my method, a practical procedure for historicist analysis. The final section (2.4) will then complement my political Marxist method by borrowing some conceptual instruments from non-Marxist traditions: the terminology of historical institutionalism, and the framework of performativity to capture the mutability of culture and ideas through social agency.

2.1. The Erasure of Politics from Marxism: The Problem

Given Marxism's lasting reputation for structural determinism, I will start my methodological inquiry by exploring why this is so. The first step will be to trace the source of Marxist structuralism to certain ambiguities within the thought of Marx himself. This will be followed by an exploration of how subsequent theoretical developments have built upon Marx's more deterministic passages, extricating the political from their analytical frameworks. This inquiry will serve to identify the pitfalls of this tradition, allowing me to identify more clearly the problems that need to be addressed by a historicist corrective.

2.1.1. The Janus Face of Marx

Karl Marx left an enormous legacy to his followers, even if a contradictory one. It is no secret that Marxists after Marx have struggled to couple together the 'structural' (abstract-formal) and the 'historical' (real-concrete) elements of his reasoning (Knafo and Teschke, 2017). This has given rise to the perception that there are two different 'Marxes' running in parallel, an 'economic' and a 'political' one. The economic Marx is said to appear in texts such as the *German Ideology* and *Capital*, where the movement of history is understood through the reflexes of an underlying economic logic, whereas the political Marx appears in texts such as *The Eighteenth of Brumaire* or *The Civil War in France*, where he most clearly identifies the contingencies of political struggle as the prime mover of social change (Knafo, 2002).

To understand this dilemma, one needs to situate Marx's thought in his own context. In his youth, Marx was a staunch critic of G.W.F. Hegel, whose philosophy represented the march of history as an intellectual journey in which the 'spirit' of human consciousness – spoken of as an agent with its own goals and predispositions – realised itself through the resolution of successive conceptual antagonisms. Marx admired

Hegel's insights into how the movement of history operated (i.e. through contradiction and conflict), but he believed that the vector of this movement lied not in the god-like providence of reason, but in material forces (van der Pijl, 2009:195-204). At the same time, Marx also rejected Hegel's 'materialist' critics such as Ludwig Feuerbach, for whom history was merely a process of matter in motion, where humans merely act out their biological script (Marx, 1969b). Rather, for Marx the exploitation of nature gives rise to societies that constitute an additional layer of historical determination, a second nature that shapes the consciousness and actions of social agents beyond their biological impulses. The implication here is that people are capable of reflecting critically on their circumstances to 'make their own history', even if 'they do not make it just as they please; under circumstances chosen by themselves, but under circumstances directly encountered, given, and transmitted from the past' (Marx, 1969a:360). This claim is often regarded as the basis of Marx's original contribution, what has come to be known as *historical materialism*, a theory of historical development centred around historically-situated agency and political struggle.

In turn, Marx located the basic source of historical dynamism in the antagonism between social classes, defined by the social relations of a given historical *mode of production*; the ways in which humans organise the forces for the exploitation of nature to provide for themselves (e.g. feudalism, capitalism, etc.). This materialist conception of history was largely influenced by the thought of eighteenth-century political economists like Turgot or Smith, who saw history as the linear succession of 'modes of subsistence' (e.g. pastoralism, agriculture, commerce), each defined by a particular division of labour, and by forms of property specific to it (Comninel, 1991:104-121; 2012:214). Yet for all his debt to these thinkers, Marx was also extremely suspicious of their triumphalism. According to these political economists, each mode of social organisation corresponded to a stage in social development, and progression through these stages corresponded to a process of universal improvement that had concluded with the advent of their own commercial era. Though Marx concurred that the capitalist mode of production was superior to all previous modes, he also rejected their belief that 'there has been a history but there is no longer any' (Marx, 1975:113). In other words, he rejected the widespread assumption that capitalist practices were the unfettered expression of human nature, an essential drive that could finally realise itself. Instead, Marx stressed the historicity of the capitalist mode of production – a phenomenon with a beginning, and, potentially, an end.

For Marx, the point was to elucidate how the dynamics of capitalist society were generated by its specific relations of production, a project that culminated in his unfinished critique of political economy: *Capital*. To do so, he employed a method of ‘abstraction’, which involved devising thought experiments to separate ‘the analytically essential and necessary qualities of social phenomena from the effects of contingent or “extraneous” processes, circumstances and interactions’, an exercise that helped him reach ‘a theoretical understanding of social relations as they operate in their “pure” form’ (Gruffydd-Jones, 2012:224; see also Ollman, 2003). This method of analysis involved deliberately holding back certain intervening processes (e.g. foreign trade) in order to emulate the controlled environment of a laboratory (Harvey, 2010:16). Via this process of theoretical inquiry, Marx purified the ‘laws of motion’ of capitalist development and its tendencies towards crisis (as outlined in the previous chapter). It is important to note that Marx did not presume the outcomes of this method to prevail in any specific context. Rather, the laws of motion were mere platonic representations of the basic properties of capitalist development only.

The legacy of Marx’s intellectual trajectory was immense, though not particularly coherent: ‘[h]aving broken with a certain form of philosophy, Marx was not led by [his] theoretical activity towards a unified system, but to an at least potential *plurality* of doctrines which has left his readers and successors in somewhat of a quandary’ (Balibar, 2014:4). The question remains how we can reconcile a vision of historical development that focuses, simultaneously, on the evolution of class struggle as well as on self-propelling laws of motion. How are these two vectors to be reconciled? Does one take primacy over the other? This ambiguity has trapped the Marxist tradition in ‘quantum leaps’ between invocations of social agency and structurally-determined patterns of change. An aforementioned example is David Harvey’s work, describing the process of urban development under capitalism as the mechanical reflex of a structural logic (e.g. the spatial fix recurs in ‘Kuznets waves’ of 15-25 years), as well as a consequence of class struggle, which leaves its imprint over time (Harvey, 1976:107-8; 116). As Harvey himself admits, how one is supposed to bridge structure and agency remains unclear: ‘[i]t is fair to say that the duality of worker as “object of capital” and as “living creative subject” has never been adequately resolved in Marxist Theory’ (Harvey, 1982:114).

2.1.2. *Marxism and Structuralism*

The problem is that an ambiguity between structure and agency tends to slide almost invariably into structural determinism ('structuralism'). As Knafo (2017:97) puts it, 'the problem is mostly one of perspective':

agency is difficult to perceive because of the asymmetry which exists between structural conditions [...] and the impact that a single agent can make on society. [...] Indeed, it is easy to see what difference an individual can make to their immediate surroundings, but much more difficult to specify what difference people make to the broader social processes we are interested in when doing global political economy.

It is thus insufficient to claim that 'agency matters' without making any analytical provision to accommodate it, as there is a certain inertia in the social sciences to 'fetishise the structures that govern social life assuming that they are imbued with a life of their own, as if they impose their own logic on society' (ibid.). Perhaps unsurprisingly, the Marxist tradition has too often resolved the tension in Marx's legacy by subordinating political struggle to structural determinations that deprive political agency of any meaningful autonomy. To illustrate this problem one can name at least three common forms of Marxist structuralism:

(1) The crudest example is the infamous *base-superstructure model*. According to this model, all political, cultural, and legal developments in history are a '*superstructure*' that can be interpreted in relation to the mechanical reflexes of an underlying economic '*base*'. As Marx (1996:160) famously put it in a highly deterministic passage of his oeuvre:

At a certain level of their development the material productive forces of society come into contradiction with the already existing relations of production, or in what is merely a legal expression for this, with the property relations within which they had previously functioned. From forms of development of the productive forces these relations turn into their fetters. Then an epoch of social revolution commences. With the alteration of the economic foundation the whole colossal superstructure is more or less rapidly transformed.

Paradoxically, this metaphor did not figure prominently in the works that Marx published in his lifetime. Rather, it rose to prominence after his death, by the hand of his companion Friedrich Engels, who turned passing statements of this sort – many unpublished in Marx's lifetime – into doctrine. Indeed, perhaps due to the necessities of working-class organising, Engels' late nineteenth-century writings came to simplify Marx's philosophy into a theory of economic causation in line with the natural sciences. As his critics already noted at the time, Engels' rewrote Marx's materialism into something 'more positive, objective, and obeying a compulsive logic, than anything Marx (and he himself in an earlier phase) had ever contemplated' (van der Pijl, 2009:217). In turn, the socialist movement that Engels' work inspired came to reduce political agency to a function of underlying laws of economic (or technological) development, often to speak of the historical necessity of a coming collapse of capitalism. Eventually, the base-superstructure model, in its starkest and most positivistic form, became enshrined as state ideology by the totalitarian Soviet Union. In the words of Stalin himself (1952:238):

Marxism regards laws of science — whether they be laws of natural science or laws of political economy — as the reflection of objective processes which take place independently of the will of man. Man may discover these laws [...] but he cannot change or abolish them. Still less can he form or create new laws of science.

(2) More historically-sensitive Marxist approaches rely instead upon what could be called '*suspend and resume*' models (e.g. Wallerstein, 1974; Aglietta, 1998). According to this view, the historical process is congealed into long phases in which political autonomy is overridden by socioeconomic systems. These systems are usually presumed to have laws of their own, as well as a tendency to exhaust themselves, resulting in cyclical breakdowns. It is in these interstitial moments – and only then – that the plasticity of history resumes, opening up windows of political agency that will determine what the next system will look like. Sooner or later, a new system will crystallise and the window of agency will close down until the internal contradictions of the system bring about the next crisis.

In short, political agency only attains a certain autonomy 'when the stars align', so to speak. There is little irony in the astronomical metaphor, as it is sometimes explicitly invoked, for example, in Immanuel Wallerstein's 'world-systems theory'. Wallerstein's analysis starts from the picture of a global capitalist economy defined by a rigid

structure of core-periphery relations with a logic of their own. This analysis encourages a macrostructural perspective, as there is little possibility to escape the gravitational pull of world-system on the ground – or at least until the world-system decays, opening up possibilities for change. In order to elucidate when the portal of agency will open up next, Wallerstein (1974:7) tracks the ‘epicyclical’ fluctuations of the world-system with a method inspired by astrophysics:

I was inspired by the analogy with astronomy which purports to explain the laws governing the universe [...] They use of laws derived from the study of smaller physical entities, the laws of physics, and argue that (with perhaps certain specified exceptions) these laws hold by analogy for the system as a whole.

To do so, he devised a schema of world-systemic cycles derived from smaller sets of business cycles, such as Kuznets waves (spanning 15-25 years) or Kondratiev waves (45-60 years) (Wallerstein, 2016:188). Normally, these cycles land out of synch in time and place, resulting in localised crises across the world economy. However, in some, historically rare, occasions, several downward phases align and bring about the eschaton: a world-systemic crisis opening up possibilities for historical change. For Wallerstein, we are living through one of such seismic periods. According to him, the global financial crisis was a pre-determined event signalling the irreversible twilight of the world-system: ‘we can be certain that we will not be living in the capitalist world-system in 30 years [...] the new social system that will come out of this crisis will be substantially different’. Only because of this, whatever the next system might look like ‘is a political question and thus open-ended’ (Wallerstein interviewed by Iglesias & Errejón, 2009).

(3) A more methodologically sophisticated structuralism is that of Louis Althusser and his followers, for whom the role of structural determinism is merely that of Platonic speculation. For Althusser (2005), Marx’s distinct contribution was a science of history capable of uncovering the deep structural determinations at work in society (i.e. the logic of the mode of production), a view Marx had reached after an ‘epistemological break’ with the more agential analyses of his youth, and which he would develop to full maturity in *Capital*. Althusser would later complete this erasure of politics from Marxism with his notion of ‘ideology’, according to which every mode of production exudes certain ideologies that are functional to their reproduction. The function of

these ideologies is to ‘interpellate’ social actors to assume their designated role in society, ensuring the continuation of patterns of exploitation (Eagleton, 2007:143-5).

Though it may seem paradoxical, Althusserian Marxism was conceived as a reaction to the base-superstructure model. The determinations of the mode of production are here mere ideal-type formulations that are not expected to have any necessary correspondence with concrete phenomena. The point, rather, is to excavate the ‘essence’ of social formations through pure formal deduction. An example of this form of reasoning can be found in Nicos Poulantzas’ (1974) famous theory of the capitalist state. Poulantzas sets out from an ideal-type capitalist mode of production, conceived as a broad social structure with economic, political, and ideological ‘levels’ that are functionally interrelated. It is on this basis that he proceeds to deduce the ‘political instance’ of the capitalist mode of production: i.e. a ‘type’ of state that befits its economic logic. The form of the capitalist state, then, is derived from its connection to an imaginary theoretical construction, rather than extracted from any concrete historical analysis (Wood, 2016:55-56). The overall result is a reformulation of the base-superstructure model in ethereal form: capitalist logic is assumed to override everything else, but only as a thought experiment. In reality, concrete relations between the state and capital accumulation may have little to do with the logic of capitalism and could be almost accidental. An implication here is that actually-existing social formations are exceedingly complex objects of inquiry, best left to historians, not Marxists. The job of the latter is thus rigorously limited to armchair speculation.

Traces of these forms of structural reasoning live on in contemporary Marxist thought, including the Marxian-infused accounts of the Spanish crash examined in the previous chapter. For example, the core-periphery narrative, which borrows heavily from Wallerstein, tends to read from the global plane a series of conclusions with respect to national formations without substantive treatment of those social formations, as if their particular histories and domestic political agencies did not matter (Lapavistas et al., 2012; Fouskas & Dimoulas, 2013; Álvarez, 2013). Likewise, the spatial fix narrative tends to put deductively-crafted theory before historical evidence, relegating the latter to a mere confirmationist role (López & Rodríguez, 2010; Charnock et. al, 2014). In the end, the analysis of the political is surrendered to the caricatured view of neoliberal economics, according to which political agency matters very much indeed, but only to disturb an otherwise perfectly functional market economy. The question is: how can the political be reintroduced into a critical narrative of the Spanish crash?

2.2. Beyond Marxist Structuralism: Searching for a Historicist Ethic

Having examined the pitfalls of Marxist structuralism, I will now look for inspiration for how to bring the political back in. To do so, I will examine the backlash against structural Marxism in the 1970s and 80s, particularly by two critics who sought to emphasise themes like subjectivity and historical contingency: Michel Foucault and E.P. Thompson. From Foucault I shall borrow the principles of his anti-teleological method of historical analysis (*genealogy*), as well as his notion of ‘apparatus’, which captures how social formations evolve through the deployment of immaterial discourses and material practices to address a perceived urgent need (dissolving the base-superstructure dichotomy in the process). The problem with Foucault, however, is that he displays a great ambiguity when it comes to the question of how to integrate agency into his method. To address this issue, I will turn to the anti-structuralist Marxism of E.P. Thompson, which shares many parallels with the historicist ethic of Foucault, but with a much greater emphasis on the creative capacity of human agency. Thompson’s reformulation of key Marxist concepts (e.g. class, mode of production) will also contribute to setting my Marxist method on a historicist course.

2.2.1. Michel Foucault’s Genealogy: Tracing Apparatuses of Power

Perhaps Marxism’s greatest contender in the 1970s was philosopher and historian Michel Foucault, whose thought sought to cast light upon historical contingency at the expense of teleological reasoning. Though the term ‘post-structuralist’ is a shaky one (it often lumps together a number of French theorists with little in common and Foucault himself rejected it, see Cusset, 2008), the label applies to Foucault insofar his work was a response to two preceding structuralisms: semiology and Marxism. Semiology here refers to the import of structural (or Saussurean) linguistics into the social sciences and the humanities (e.g. Lévi-Strauss, 1966). Put simply, semiology stresses that human culture ought to be analysed by reference to broad structures of meaning operating beneath the thoughts and actions of social actors – a methodological separation between ‘theory’ and ‘history’ that was later imported into Marxism by the hand of Althusser. Foucault criticised the way this theory disinfected social theory from the messiness of conflict and contingency. Likewise, Foucault was also critical of French Marxists for their rigid reduction of historical change to the internal contradictions of economic structures (here referred to as ‘dialectics’):

Neither the dialectic, as logic of contradictions, nor semiotics, as the structure of communication, can account for the intrinsic intelligibility of conflicts. “Dialectic” is a way of evading the always open and hazardous reality of conflict by reducing it to a Hegelian skeleton, and “semiology” is a way of avoiding its violent, bloody, and lethal character by reducing it to the calm Platonic form of language and dialogue (Foucault, 1991:56-57).

In short, in his critique of structuralism, Foucault emphasised political struggle and historical contingency. To do so, he developed his famous ‘genealogical method’: a mode of historical inquiry that ‘rejects the metahistorical deployment of ideal significations and indefinite teleologies’, and instead ‘record[s] the singularity of events outside of any monotonous finality’ (Foucault, 1991:76-77). The role of the genealogist is to trace the development of techniques of power by patiently following ‘the accidents, the minute deviations – or conversely, the complete reversals – the errors, the false appraisals, and the faulty calculations’ in the historical process (ibid.:81). This focus on contingency is an invitation to get rid of analytical prisms that subordinate social developments to macro-structural logics, be it the collective unconscious of semiology or the functional determinations of the Marxist mode of production. The ultimate purpose is to uncover how ‘the forces operating in history are not controlled by destiny or regulative mechanisms, but respond to haphazard conflicts’ (ibid.:87).

For Foucault, there was no deeper (structural) truth to history beyond the realm of struggle and strategy. A methodological implication here is that it is pointless to focus our attention on structural formulas: we should always prioritise the study of power ‘with its specificity, its techniques and tactics’, and in a manner that cuts across both material practices and immaterial discourses (ibid.:57). This allowed him to subvert the residual metaphysics scattered across Marxism (e.g. social totality, historical necessity, etc.) and its tendency to award priority to the imperious logic of the mode of production. Instead, Foucault preferred accounts of historical change, emphasising the combination of many ‘little causes’ (Gutting, 2005:43). For instance, in his genealogy of the penitentiary system (*Discipline and Punish*), he traced the birth of a radically new system of social control to the combination of a myriad of different practices: invention of new rifles, new techniques for the organisation of hospitals, etc. (Foucault, 2016). The overarching themes of this intellectual project are condensed in his notion of *dispositif* (often translated as ‘apparatus’), a concept that designates the

heterogeneous ensemble of practices and discourses that get mobilised in a given historical period to address an urgent need (Peltonen, 2004).

Yet, for all his powerful criticisms of the macro-structuralism of Marxism, Foucault's work does have a tendency to fall into a sort of micro-structuralism of his own. His 'microphysics of power', as he termed it, describes the imposition of rationalities upon historical actors in a manner that leaves a question mark around their political autonomy (Foucault, 2016). Here it is important to note Foucault's origins in modernist literary theory, according to which language is a source of thought in its own right rather than a device to convey meaning. In other words, the author is no longer conceived as a self-expressive agent but as a vessel through which language expresses itself (Gutting, 2005:10). This 'anti-humanism' imbues Foucault's historical work: '[o]ne has to dispense with the constituent subject, to get rid of the subject itself [...] this is what I would call genealogy' (Foucault, 1991:58-59). To be sure, Foucault was charging against the idea of a 'transcendental' subject, a transhistorical agent that thinks and acts according to a pre-political identity. Instead, he insisted that particular identities, interests, and desires are themselves produced by discourses of power. Though this constitutes a powerful corrective against the Marxist presumption that specific 'objective' conditions automatically give rise to specific subjectivities (e.g. class consciousness), the problem is that Foucault's erasure of the foundational subject sometimes dissolves human agency altogether. Though Foucault detested being labelled a structuralist,¹³ it seems hard to avoid the implications of such a strict anti-humanism: inviting us to see history like he does literature, the historical subject is reduced to a vessel through which power 'fights itself' out.

Before his premature death, Foucault himself noted these limitations and began to explore the creative capacities of human agency:

Perhaps I've insisted too much on the technology of domination and power. I am more and more interested in the interaction between oneself and others, and in the technologies of individual domination, in the mode of action that an individual exercises upon himself by means of the technologies of the self. (Foucault interviewed by Martin, 1998:19)

¹³ 'In France, certain half-witted "commentators" persist in labelling me a "structuralist". I have been unable to get it into their tiny minds that I have used none of the methods, concepts, or key terms that characterize structural analysis' (Foucault, 2012:xiii).

Yet Foucault never properly outlined the connection between these individualised ‘technologies of the self’ with the dimensions of power that he explored in his earlier work (Konings, 2015:27-30). In a way, the technologies of the self could simply be read away as the transmission belt of an ordering logic of domination. Contemporary Foucauldian theorists are seeking to reconcile these two facets by excavating some of the concepts advanced in his later writings, such as ‘governmentality’ (Lemke, 2002; Foucault, 2010). The jury is still out on the question.

2.2.2. *E.P. Thompson’s Marxist Humanism: Historicising Creative Agency*

Foucault’s work offers invaluable insights to subvert Marxist structuralism. Particularly useful is his emphasis on how power is exercised through concrete practices and on patiently historicising ‘apparatuses’ of power – a notion that I shall return to in the next chapter. Yet it is often forgotten that in Foucault’s time there were Marxist dissidents of structuralism who fought to reassert the historicist pedigree of their tradition without trying to jettison the human subject at all. Indeed, it is hard to read Foucault without hearing the echoes of E.P. Thompson (2001), who at the time was charging against structural Marxism from the other side of the English Channel. From there, he fiercely invoked the necessity to re-centre Marxism not only around history and contingency, but also around the creative capacities of human agency: ‘[t]he homeland of Marxist theory remains where it has always been, the real human object, in all its manifestations (past and present)’ (ibid.:452). Here is where Thompson’s ‘humanism’ parts ways with Foucault’s ‘anti-humanism’, which he saw as a mere extension of Althusserian philosophy: ‘It is significant that the only historian commended by Althusser is Foucault, his former pupil, who in his earlier work [...] also gives us history as a subject-less structure, and one in which men and women are obliterated by ideologies’ (ibid.:475).¹⁴

Contra Althusser, Thompson (ibid.:451) saw *Capital* not as Marx’s most mature work, but as an expression of his entrapment in the ‘theoretical whirlpool’ of bourgeois political economy. In *The Poverty of Theory*, he argued that historical phenomena can never be comprehended through scientific ‘laws of motion’ akin to those of physics, because historical knowledge is always necessarily incomplete and open-ended: ‘[in history] the “laws” (or, as I prefer it, logic or pressures) of social and economic

¹⁴ Here Thompson is referring to works such as *The Order of Things* (2012), where Foucault seeks to elucidate the ideational structures (*epistemes*) underpinning the production of knowledge in a given historical period.

processes are continually being broken into contingencies' (ibid.:446). Yet the response cannot be to retreat into a fictitious realm of pure antiseptic theory or to turn Marxism into 'the plaything of scholasticism'. On the contrary, the point should be precisely *to intensify the dialogue between theory and history*. The messy disorder of history can be theorised, but only if we are ready to craft theoretical devices capable of grasping an object as fluid and elusive as historical knowledge. This includes softening rigid 'laws' into mere 'expectations', all while being aware that history may always be on its way to thwart them. Moreover, it requires us to jettison static concepts like ideal-types, as they tend to obscure the processual nature of social institutions (ibid.:445). In short, Thompson's historicist method invites us to abandon purified categories and to replace them with open-ended concepts, built around the variable of political agency.

These methodological concerns are crucial to understand Thompson's reformulation of Marxist concepts such as 'class', which he saw as a lived process: 'I not see class as a "structure", nor even as a "category", but as something which in fact happens (and can be shown to have happened) in human relationships' (Thompson, 2013:8). In short, class is not a 'thing' that can be measured with mathematical precision, nor a 'location' that can be observed by taking geological sections of the social structure, but a collective subjectivity that arises out of processes of struggle. This method was applied in *The Making of the English Working Class* (2013 [1963]), which deploys a painstaking historicisation of working-class agency in the cultural and political context of the English nineteenth century.

Yet at the same time, this does not mean that Thompson thought of classes as mere 'identities', fully autonomous from structural determinations. On the contrary, for Thompson class formation is a 'structured process', shaped – but not determined – by shared experiences of material antagonism (Wood, 2016:96). Thompson's point was a methodological one. The determinacy of material pressures in the formation of class subjectivities cannot be predicted a priori, only empirically demonstrated post facto, by historicising how the link between material pressures and class subjectivity works itself out in concrete struggles. The implication here is a frontal challenge to economic determinism: structural factors, even when they act as contextual preconditions, always remain insufficient explanations requiring a further historicisation of creative agency.

Similarly, Thompson's conception of the mode of production is not something 'which is somehow "material" as opposed to "social" [political, legal, cultural], but rather as itself irreducibly social – indeed, a conception of the "material" as constituted by social relations and practices' (Wood, 2016:63-5). For instance, in *Whigs and Hunters*, Thompson denounced a certain 'schematic Marxism' for its representation of law as a superstructure that 'adapt[s] itself to the necessities of an infrastructure' (Thompson, 2001:433-5). For Thompson, law is, rather, 'deeply imbricated within the very basis of productive relations'. It does not exist in a regionally separate 'level' of society, but is 'at every bloody level'. This captures the overarching project of his career: to tease out how the pressures of capitalist social relations are constituted, and express themselves, through the fabric of social life.

Here is where Foucault's genealogical sensibilities can be recombined with Marxism without needing to relapse onto the foundations of a pre-political subject nor the metaphysics of the mode of production. For Thompson, classes are collective subjects made in the midst of political struggle, and thus do not exist prior to their discursive articulation. Likewise, the mode of production appears as nothing more than an institutional complex that is being permanently contested and reformulated over time. To build upon Thompson's insights, I will now turn to a current of Marxist thought inspired by his focus upon historically concrete struggles: political Marxism (Wood, 1995:76-107; Blackledge, 2008; 270-3).

2.3. Political Marxism: Outlining a Procedure

For all the power of their challenges to structural Marxism, Foucault's and Thompson's insights provide more of a 'ethic' than a clear procedure. When it comes to their methodological pronouncements, their statements were usually rather vague. To explore how to implement their historicist insights, I will now turn to the approach known as political Marxism, which will act as the central core of my method. Though political Marxism built mostly on Thompson's focus on historically-concrete struggles, its historicism shares much with Foucault's genealogical approach. The first step will be to provide some background to political Marxism by exploring its source: Robert Brenner's thesis on the origins of capitalism and his historiographical method. The next step will be to address the pitfalls of political Marxism, revealed by the relapse of Brenner himself into the kind of structuralism he once criticised, as well as the methodological corrective provided by the 'radical historicism' of Samuel Knafo and Benno Teschke.

2.3.1. The Brenner Thesis: Lessons from its Historiographical Method

Political Marxism developed within the field of historical sociology, largely around Robert Brenner's highly debated thesis on the origins of capitalist development. Brenner challenged the dominant perspectives on the transition from feudalism to capitalism, which he criticised for an excessive emphasis on the determinacy of 'objective economic forces', a term which he used to refer to the structural pressures radiating from intensified trade or demographic fluctuations (Brenner, 1976, 1977, 1985). Instead, he argued that the most determinant factors in the emergence of capitalism were not raw structural pressures at all, but the concrete social struggles that arose over them, as well as the crystallisation of their outcomes in institutions regulating relations of property and domination (what Brenner termed '*social-property relations*').

Brenner's method to reach this conclusion is best illustrated by his rebuttal of neo-Malthusian explanations of the transition to capitalism (see Brenner, 1976, 1985). According to the 'demographic model' of Leroy Ladurie (1985), the basic dynamic of feudal disintegration rested upon fluctuations in the person-land ratio. Labour shortages and falling rates of feudal rent in periods of demographic decline allowed peasants to negotiate lower rents and better tenurial terms from their lords, resulting in the decline in serfdom and in the rise of a commercial (capitalist) peasantry. Though Brenner never denied the importance of these structural pressures, he did question that these structural patterns *themselves* were sufficient to account for specific patterns of social change.

To challenge this view, Brenner deployed a comparative analysis of late-medieval shifts in different European agricultures, showing how areas equally exposed to the same demographic pressures went on to experience radically divergent paths of development (Brenner, 1976:21-36). In Eastern Europe, where the landowning aristocracy responded to a fall in feudal rent by reasserting their physical domination over the peasantry, serfdom experienced a revival. In Western Europe, however, similar efforts were successfully resisted by the peasantry by flight or revolt, forcing their aristocracies to adopt creative solutions to reproduce their power. In cases like France, the landowning aristocracy merged with the monarchy to form a state apparatus capable of taxing a free peasantry directly (i.e. absolutism). By contrast, England saw the emergence of competitive leaseholds for access to the land, where the

peasantry entered into dynamics of productive competition to socially reproduce their position. This set in motion a long train of self-reinforcing pressures towards the intensification of the productive process, leading Brenner to the conclusion that English agriculture was the unique birthplace of capitalist development.

It is worth zooming in further to what Brenner identified as the distinctive features of English social-property relations. According to Brenner, around the early fifteenth century, the peasantry succeeded in consolidating personal freedom and freehold tenure, which afforded them the right to buy or sell property or to pass their farms on to their children. The aristocracy was thus forced to respond to falling feudal rents by different means of 'political accumulation', such as expanding their domains via military conquest or developing institutional mechanisms to exact further surplus from a free peasantry (Brenner, 1985:236-246). Competition within the landowning nobility made political accumulation imperative, as failure to expand their domains could result in the encroachment of other lords. To increase their rent-levying capacity over the peasantry, the English aristocracy turned to some of their remaining feudal powers, in particular a 'loophole' within the English feudal regime which allowed them 'to charge fines at will' whenever peasant lands were sold or inherited within their domains (Brenner, 1976:46-9). In the long run, these regular fines mutated into short-term leaseholds, allowing landlords to hike rents at will. Peasant tenants were thus forced to regularly increase productivity in order to renew their access to the land. This pressure pitted them against one another, as the farmers that succeeded began to agglomerate lordly leases into large estates, dispossessing fellow farmers. By the seventeenth century, this pattern had given rise to commercial forms of 'improved agriculture', a productive revolution that fascinated contemporaries (Wood, 2012:273-8). By the eighteenth century, England was home to a unique form of large-scale competitive farming that employed waged labour, a landscape of social relations that provided the locus of the Industrial Revolution (Zmolek, 2014).

The Brenner thesis, as it came to be known, stunned Marxist historians and stirred considerable debates beyond it, as it bore implications that stretched far beyond the specialist literature (Aston & Philpin, 1985). While this is not the place to dive into these debates, I shall tease out four important lessons from Brenner's historiographical method:

(1) In showing how structural pressures had to be refracted through the concrete agencies of historically-situated classes, Brenner placed the weight of world-historical

change on highly contingent foundations: the differential outcomes of political struggle. This disturbed the structuralist assumption that there is an internal logic to history, one that can be captured without historicising the outcomes of concrete agencies. Moreover, Brenner's focus on the political was broad; he refused to award historical priority to some forms of social struggle over others. Whereas Marxism traditionally has a focus on *vertical class relations* (e.g. between capitalist and worker), Brenner's account gives equal significance to *horizontal class relations*, be they between lords engaged in processes of 'political accumulation' or between capitalist farmers engaging in 'economic' accumulation (see Wood, 1999).

(2) Brenner's account centres around institutional complexes, what he termed *social-property relations*, a broad range of institutions mediating relations of property and domination. Unlike the more economistic notion of *relations of production*, the notion of social-property relations weaves into the analysis a broader set of institutional forms that orthodox Marxism had traditionally confined to the 'superstructure'. This is reflected in Brenner's demonstration of how the mode of production itself is inseparable from the legal institutions that make it operable, as well as their path-dependent effects and unintended consequences.

(3) Rather than assuming what capitalism looks like first and turning to history later – a method which inevitably reduces historical evidence to a confirmationist role – Brenner uses a comparative analysis to historicise difference in order *to elucidate what capitalism itself is*. Historians (Marxist or otherwise) often tend to assume a connection between capitalism and commerce and thus automatically trace its emergence to the expansion of commercial practices (for a discussion, see Wood, 1997, 2002).¹⁵ By contrast, Brenner refused to take the social form of capitalism for granted in this way (Brenner, 1977). In his analysis, capitalism appears as a highly distinct commercial dynamic, one centred around competitive productivity. Though this dynamic may exist in a symbiotic relation with non-capitalist forms of accumulation (e.g. colonial monopolies, craft guilds, etc.), it is not reducible to simple profit-making through commercial exchange. For example, in his later work on merchants during the

¹⁵ The connection between capitalism and simple commercial profit has a long lineage. One of its most prominent theorists was Max Weber, who assumed rather than explained this connection: 'capital always means wealth used to gain profit in commerce. Otherwise the term loses any classificatory use. Therefore we should expect a capitalist economy to be based on commerce' (Weber, 2013:48). With this simple deductive reasoning, Weber opens his major study of ancient societies, a fascinating text that represents ancient forms of exchange – all the way back to Mesopotamian agriculture – as 'capitalist'. For a more recent example of this vision of capitalism, see Kocka (2016). Of course, this transhistorical representation the notion of any historical specificity, as it basically fuses capitalism to sedentary civilisation itself. This position is hardly tenable for Marxism.

period of the English Revolution, Brenner argued that the trading classes were split between an old pre-capitalist establishment, whose business rested upon typically pre-capitalist practices (e.g. privileged forms of arbitrage), and a new class of specifically capitalist merchants, who were invested in the intensification of production methods (Brenner, 2003; for a discussion, see Blackledge, 2008:273).

(4) Brenner's analysis focuses on the emergence of historically-specific rationalities. His view of capitalism challenges narratives of the 'bourgeois revolution', which centre the emergence of capitalism around the insurrectionary energies of a mercantile bourgeoisie. Brenner criticised that these narratives *assumed the existence of capitalist rationalities before the advent of capitalism itself* (Brenner, 1977). Instead, Brenner's story is one in which capitalism developed in the countryside, gradually and unintentionally, out of the struggles between 'lords and peasants, in certain conditions peculiar to England, involuntarily setting in train a capitalist dynamic while they acted to reproduce themselves *as they were*, as essentially non-capitalist classes' (Wood, 1997:15). Though Brenner's work was directly inspired by the Marxism of E.P. Thompson, the methodological lessons I have extracted from his work can easily be recombined with the anti-teleological ethic of Foucault's genealogy, and in particular with his refusal to ascribe a transcendental rationality to any historical subject.

2.3.2. Beyond the Brenner Thesis: A 'Political' Marxism

The Brenner thesis prompted considerable backlash from other Marxists, who denounced it as a "political Marxism": 'a voluntarist vision of history in which the class struggle is divorced from all other objective contingencies and, in the first place, from such laws of development as may be peculiar to a specific mode of production' (Bois, 1985:115). While the term was originally articulated as a slur, Brenner's followers embraced it with pride, most prominently Ellen Meiksins Wood, seeing it as a reasonable description of their work. However, Wood denied that political Marxism implied a 'voluntarist' vision of history. Rather, she argued, political Marxism

simply takes seriously the principle that a mode of production is a social phenomenon [...] The objective of this approach is to illuminate the terrain of struggle, by viewing modes of production not as abstract structures but as they actually confront people who must act in relation to them (Wood, 2016:57).

Wood fleshed out the theoretical implications of the Brenner thesis into a distinct framework under this label. Central to her work was a theory of capitalism's unique 'separation of the economic and the political' into different legal spheres (Wood, 2002a; 2012). Following Brenner's historical observations, she theorised that the capitalist drive towards the intensification of productivity was a consequence of detachment of accumulation from visibly 'political' means (e.g. military expansion, feudal land-rent extraction, or absolutist tax farming). Instead, the lack of such direct coercive means at the hands of the capitalist class means that accumulation takes on the appearance of abstract 'economic' forms, such as the need for cost-effective production and technological improvement. In turn, she also argued that the experience of these pressures is what makes it phenomenologically possible to displace processes of exploitation onto the imperatives of supply and demand – 'the market'. This carries an important corollary: to represent capitalism with law-like formulas is to take its appearance for granted. Despite its distinct 'economic' pressures, the secret of the capitalist market remains a 'political' one, for it only exists 'in the shape of social, juridical, and political forms — in particular, forms of property and domination' (Wood, 1981:69). This has profound methodological implications for Marxist theory, as it implies that we should be able to trace the relation between base and superstructure 'without great conceptual leaps because they do not represent two essentially different and discontinuous orders of reality' (ibid.:78).

On the whole, Brenner accepted Wood's theorisation of his work. However, they came to disagree over the source of capitalism's unique 'market imperatives'. Though this tension was not apparent at first, it eventually surfaced around the turn of the millennium (see Brenner, 2001; Wood, 2002b; Post, 2002).¹⁶ For Brenner, the capitalist market imperative arose in England out of the 'market dependence' of the tenant farmers, who had to produce for the market in order to reproduce their access to the means of production. These structural pressures automatically locked them into a competitive dynamic that led to capitalist accumulation. For Wood, however, to claim that structural conditions are sufficient to account for emergence of capitalist rationalities amounted to a relapse into the kind of reasoning that Brenner had once criticized, as the birth of capitalism comes to be seen as an outcome of 'objective economic forces', in this case, of the pressures of market dependence (Wood, 2002b). Instead, she argued that whereas market dependence may act as a contextual

¹⁶ This dispute surfaced over the Dutch transition to capitalism (see Brenner, 2001; Wood, 2002b; Post, 2002).

precondition for the emergence of capitalist rationalities, causal primacy needs to be tracked further down, to a historically-concrete analysis of social-property relations.

At first glance, Brenner's plain focus on market dependence does seem to run counter to the original premise of his thesis, which purported to de-centre macro-structural laws of economic causation. Yet upon closer inspection, Brenner's concept of social-property relations always had a structuralist bent: 'social-property systems, once established, tend to set strict limits and impose certain overall patterns upon the course of economic evolution' (Brenner, 1985:213). These 'patterns' are in fact rigid 'rules of reproduction': 'certain limited options, indeed quite specific strategies, in order best to reproduce themselves – that is, to maintain themselves in their established socio-economic positions'. The assumption here is that social structures impose a specific rationality upon economic actors, who merely act out a pre-ordained script.¹⁷ The problem is that this assumption, in the long run, results in a greater salience for abstract logics of systemic reproduction that pushes into the background the role of concrete agencies around social-property relations, as the latter can be safely assumed to be a mere reflex of the former (Knafo & Teschke, 2017).

The result is, put simply, *a structuralist relapse*, one that has been openly embraced by some of Brenner's most prominent followers. For example, Charles Post openly argues that '[we need] a *structuralism* that allows us to understand the *limits* and *possibilities* of historical evolution and variation' (interviewed by Souvlis et al., 2017). For Post, all sets of social-property relations

have strong laws of motion/'rules of reproduction' which produce distinctive patterns of growth and crisis, and distinctive forms of class struggle. It is in phases of crisis that conflictual class relations are intensified, opening the *possibility* (not necessity) of systemic-modal transitions – the emergence of new social property relations as the unintended consequence of attempts by producers and appropriators to reproduce their social position.¹⁸

¹⁷ The view that social structures prescribe specific forms of rationality bears the residual marks of rational choice Marxism, another of Brenner's intellectual influences. Along with G.A. Cohen, Brenner was part of the Marxists who in the 1970s formed the 'No Bullshit Marxism Group', the original gathering of analytical Marxism (Smith, 2011).

¹⁸ A former Althusserian, Post has sealed this turn with a rebrand of 'political' Marxism as 'Capital-centric' Marxism, a change to emphasise that Marx's *Capital* remains 'the bed-rock for concrete studies of historical and contemporary capitalism'.

This reveals a major pitfall of the Brennerite version of political Marxism: political agency tends to be deprived of any meaningful autonomy throughout most of the historical process, as it is only reduced to the interstitial moments between fully-fledged economic systems. All of a sudden, we are dealing with a vision of history identical to that of ‘suspend and resume’ structuralism outlined above (e.g. like that of Wallerstein).

In order to give the political in political Marxism more prominence, the pitfalls of its Brennerite strand ought to be rejected in order to reassert the historicist promise of this tradition as theorised by Wood. To this end, Samuel Knafo and Benno Teschke (2017) have called for a radicalisation of political Marxism’s historicism by grounding it more firmly in Wood’s understanding of the mode of production as a permanently contested phenomenon. This requires a loosening of the notion of social-property relations so that it becomes sufficiently elastic to adapt to historical evidence. In other words, rather than projecting onto them prescribed rationalities and outcomes, the notion of social-property relations should remain an open-ended category that has to always be completed by a historicisation of political agency in concrete contexts. However, to do so is incompatible with *nomological* categories: theoretical devices based on law-like patterns, such as ‘laws of motion’ or ‘rules of reproduction’. The problem with such categories is that they often take history for granted. Committing us to the workings of a higher logic in advance, they relegate historical examples to a confirmationist role.

For Knafo and Teschke, the point is to use the plasticity of history to *explain* social developments, rather than to merely *illustrate* them. To revitalise political Marxism in this manner, they make the following methodological suggestions (Knafo & Teschke, 2017:21-24; Knafo, 2017):

(1) We should start off by clearly identifying the actors involved in a process of historical change, characterising their agencies in terms of their specific features. For example, instead of starting from the premise that the actors under consideration are capitalists, we should look at what distinguishes this particular set of capitalists from other capitalists. The point here is to force ourselves to tread cautiously when handling concepts that are loaded with strong associations and expectations. The ultimate purpose of this is to avoid the trap of ascribing social change to causal mechanisms that are imposed upon actors by their structural position.

(2) Following the example of the Brenner thesis, comparative analyses should be deployed to grasp the difference made by the innovations of social actors. Whereas the comparative method is often deployed to design taxonomies of social systems, the point here is precisely the opposite. It spots specificities and thus determines what needs to be explained, for difference is often a marker of what is socially constructed rather than structurally determined. Historical comparisons can be *temporal* (diachronic), to mark a qualitative departure from a previous norm, or *spatial* (synchronic), to show how differential courses of action were taken in parallel to address similar concerns. The point is to tease out the specific qualities of a particular path of development in order to isolate the critical junctures at which history is steered in a particular direction. The ultimate aim is to develop ‘a question driven mode of research, systematically asking what was new, different, innovative in the resolution of a social contradiction’ (Knafo & Teschke, 2017:19).

(3) Social developments ought to be analysed as the outcomes of intended and unintended effects of social struggles. As Knafo puts it (2017:100), ‘an account can only become truly historicist if we detach agency from intentions. For what agents produce through their strategies or actions rarely conforms to their expectations or intentions’. Acknowledging that social actors can never fully control what emerges out of their innovations is important to avoid projecting functional schemes onto the past. The disadvantage of hindsight is that it encourages us to assume that certain events happened because they were necessary (e.g. for the reproduction of a particular social system). The point here is to expose us to the unintended and the counterintuitive, factors that are often difficult to grasp from our historical position.

2.4. The Sedimentation of Politics: Borrowing Conceptual Tools

If the methodological pronouncements of Foucault and Thompson imbues my method with a historicist ethic, political Marxism equips it with procedural guidance to put historicism into practice. What needs further development are the conceptual instruments that the method will be using when it comes into contact with concrete historical evidence. Beyond Thompson’s reformulation of key Marxist concepts (e.g. class, mode of production, etc.), so far my conceptual toolbox includes Foucault’s ‘apparatus’, and Brenner’s notions of ‘social-property relations’ and ‘political accumulation’ – instruments that I will hone further in the next chapter. But before doing so, I will move on to gather further conceptual tools of greater precision. This is a preventive move, one that seeks to get a better grip on concrete social-property

relations in order to avoid getting caught by the structuralist inertia. Of particular urgency are instruments that can capture how social structures are constantly in flux, in reflection of the sedimentations of political agency – a theme that figures prominently in Foucault’s ‘genealogy’, in Thompson’s notion of ‘structured process’, as well as in political Marxism’s instinct towards the *longue durée*. To represent the sedimentation of politics at the level of material practices, I will be borrowing from the conceptual toolbox of historical institutionalism, whereas to do so in the realm of immaterial discourses, I will be turning to the concepts of performativity.

2.4.1. *Historical Institutionalism: The Evolution of Practices*

Historical institutionalism is an approach highly compatible with a radical historicist political Marxism.¹⁹ On the one hand, the assertion that the agency of social actors ought to be interpreted within a historically-constituted context already situates this tradition in the epistemic vicinity of historical materialism. On the other, the term ‘institution’ encapsulates the ‘building blocks of social order’. They represent socially-sanctioned and collectively-enforced expectations, ‘with respect to the behavior of specific categories of actors or to the performance of certain activities’ (Streeck & Thelen, 2005:9) – a deliberately broad definition that can be easily adjusted to designate concrete social-property relations. Moreover, historical institutionalism carries in-built a healthy distrust of the functionalism. Authors within this tradition operate with historicist instincts, reserving an important space for unintended consequences in their frameworks of analysis (Pierson & Skocpol, 2002:705; Steinmo & Thelen, 1998). All of this chimes well with a radically historicist political Marxism. It is not an accident that Knafo and Teschke (2017:8) have traced the source of Brenner’s structural relapse to the moment when ‘institutions took a back seat’ in favour of ‘invoking an abstract notion of the market’ as if ‘a market (or capitalism) can exist as an extra-political tangible reality when abstracting from the institutions that

¹⁹ Historical institutionalism emerged in the context of the ‘new institutionalist’ turn of the 1970s and 80s, when a new generation of political scientists and historical sociologists reacted against a previous wave of behaviouralist thought (Steinmo & Thelen, 1998:5-10). Modelled after the natural sciences, behaviouralism claimed to observe political behaviour in a neutral manner with positivist methods. This project crumbled in the aftermath of the global crisis of 1973, when it became evident that the social sciences needed a more nuanced understanding of why interest groups and classes demanded different things in different contexts. This spawned two institutionalist responses, a rational choice and a historical one. The main division between them was their understanding of preference-formation: whereas the former saw actors as driven by the universal reason and utility-maximisation, the latter argued that the preferences of actors ought to be examined against their historically-situated context. By the early 1990s, historical institutionalism had coalesced around a research agenda that focused on explaining ‘divergence’: the forms of structural variation between national contexts.

mediate social relations'. In particular, Knafo's work (e.g. 2009, 2013) often bears a strong historical institutionalist flavour.

The distinct value of historical institutionalism resides in the toolbox of operative concepts that it has produced over the decades. An early contribution is the notion of *path dependence*, geared towards explaining historical continuity without having to resort to functionalist explanations. Put simply, the notion of path-dependence denotes the 'dynamics of self-reinforcing or positive feedback' into which institutional formations enter once they go down a particular trajectory of development (Pierson & Skocpol, 2002:699-700). Though making increasingly difficult to reverse course once history has ventured down a particular path, 'these processes can be highly influenced by relatively modest perturbations at early stages'. These unsettled moments are referred to as *critical junctures*, an abstraction that captures the historical crossroads at which a number of alternatives are available, even if some of those alternatives will be irretrievably lost once historical development bends in a particular direction. Additionally, the concept of *sequencing* captures how the timing and order of developments can matter a great deal. Similar chains of events taking place in a slightly different order can produce dramatic variations across contexts.

Though this triad of concepts can be very helpful, it has also been criticised for encouraging a perception of history that is dominated by long stretches of self-reinforcing stability (path-dependence), and only punctuated by occasional moments of radical innovation (critical junctures). This image of historical change is not unlike that of Marxist structuralism, according to which social structures run their own course until they fall by their own weight, at which point – and only then – a window of agency opens up for steering the course of history (see Hay and Wincott, 1998). To counter such a sharp continuity-discontinuity divide, a certain strand of historical institutionalists has crafted a battery of concepts that capture the elusive workings of gradual and adaptive change (Streeck and Thelen, 2005:18-30; see also Thelen, 2002; Shickler, 2001):

(1) *Layering* denotes how new institutions are often patched onto pre-existing ones. This is done to work around elements that have become entrenched, as over time the dismantlement of certain institutions becomes too costly in economic, political, or social terms. This dynamic does not preclude institutional change. On the contrary, it addresses how the gradual addition of new practices can dramatically revise older sets of institutions.

(2) *Displacement* refers to the increasing salience of subordinate institutions at the expense of dominant ones. Institutional formations are never entirely coherent, as different institutional arrangements that took shape in different time periods tend to coexist within them. This may have happened because older, dormant institutions are given a 'rediscovered' role that displaces more recent ones, or perhaps the import of practices foreign to the system end up assuming the role of more traditional ones.

(3) *Conversion* refers to the redirection of an already existing institution towards new goals and functions. This repurposing may reflect a change in orientation of institutional actors in response to new pressures, or perhaps the takeover of new actors who had previously been excluded from the running of such institution. This carries an implicit recognition that institutions 'often constitute common carriers for coalitions of actors who support them for highly diverse reasons' (Streeck and Thelen, 2005:26).

(4) *Drift* captures how some institutions are deliberately left to decay. Without active tending and maintenance, rules and expectations cease to be enforced until they become obsolete. This process often carries an instrumental purpose in mind, such as facilitating the future dismantlement of an otherwise entrenched institution.

(v) *Exhaustion* reflects the dynamic by which institutions fall by their own weight, as their contradictions deplete and weaken their operations. This is what Marxist structuralism identifies as the basic thrust of historical dynamism, yet here it merely denotes one amongst many possibilities of change.

2.2.3. *Performative Agency: Integrating Discourse*

To complement my method with performativity may seem striking to people working within the Marxist tradition, so accustomed to defining their 'materialism' against the 'idealism' of interpretivist approaches. However, this misses how Marx's 'materialist conception of history' was foremost a focus on how history is made by people in concrete struggles, as opposed to quasi-religious notions of historical change based on an abstract providential force (e.g. Hegel's absolute Idea): 'human history differs from natural history in that we have made the former, but not the latter' (Marx, 1990:493). The paradox here is that structural Marxism's insistence on speaking of economic laws independently from human will relapses into a certain 'idealism' of its own, even if the

Hegelian 'world-spirit' is nominally secularised into an economic 'world-system'. In this sense, political Marxism, or at least the anti-structuralist version of it, implies a radically materialist conception of history, for the separation between an economic base and a social superstructure is dissolved into a single vector of political struggle, one that includes the social construction of identities, interests, and expectations.

The problem, in my view, is that political Marxism still lacks the necessary conceptual tools to weave the role of culture and ideas into its framework. Here I shall turn to Judith Butler's notion of 'performative agency', according to which discourses (i.e. cultural expressions) do not just designate a given social reality, they also produce the reality they purport to designate. Borrowing the term from language philosopher J.L. Austin, Butler describes 'performativity' as 'not [just] the act by which a subject brings into being what she/he names, but, rather, as that reiterative power of discourse to produce the phenomena that it regulates and constrains' (Butler, 1993:2). Famously, Butler has deployed this notion for the formation of gender identities, questioning the existence of a natural and stable gender prior to the expressions 'acting it out' over and over again. This emphasis on social construction has been celebrated as a powerful corrective against Marxist structuralism. If our social reality is constructed by a thick layer of discourses and performances, then social structures themselves should be seen as a product of these expressions and not as a priori determinants of our actions.

According to Butler, there are two types of performative iterations or 'utterances': *illocutionary* and *perlocutionary* (Butler, 2010:147-8). (1) *Illocutionary utterances* are those forms of expression that automatically bring about certain realities, for example, when the head of a central bank gives the order to implement a change in interest rates. Such a speech act has the power to set in motion the institutional machinery of the monetary authority that makes it happen. (2) *Perlocutionary utterances* involve speculative wagers that require others to 'take up the utterance and endeavour to make it happen'. An example would be Mario Draghi's intervention at height of the Euro crisis (see chapter 1), when a vague sentence void of actual measures was sufficient to prompt an immediate positive response from bond markets. Either way, the point here is that social structures do not simply reproduce themselves. They always require a chain of human actions to do so, and in this process there always is potential for 'misfire', a variable that always needs to be factored into our analysis of social structures. In short, the continuation of social structures cannot be taken for granted. Their workings must be tracked all the way down to the performative agencies that reproduce them, but also to those that circumvent, sabotage, or renegotiate them.

The next question is how to represent the layering of these performative agencies over time. To do so, I will draw from the insights of Martijn Konings. Interestingly, Konings started out as a critic of Brenner's structuralist relapse (see Konings, 2005:95-99). However, over the last decade, Konings has sought to 'bring agency back in' by going down a path very different to that of Knafo and Teschke. He has turned to study of the politics of signification, the active creation of meanings.²⁰ For Konings (2015:53-58), the process of communication involves the active creation of connections between previously existing signs in order to make one sign comprehensible in terms of another, an assemblage he terms '*indexation*'. The practice of indexation is most visible in the use of metaphors, the symbolic association between heterogeneous elements. This involves invoking the authority of a sign and transplanting its meaning elsewhere in order to construct a new entity. For instance, when speaking of 'austerity' or 'the deficit' conservative politicians often address the public finances as if they were a household budget: 'more money needs to go in than it goes out'. This connection, designed to be readily commensurable for the public, is of course inflected with subtleties. The metaphor conceals certain possibilities that are available to states but not to households, such as increasing revenue by raising taxes, or printing more money.

The process of indexation is always a perlocutionary utterance; it involves a speculative wager that may or may not take hold in those who is targeting. For example, the public may have built up a resistance to rhetoric of that sort, recognising the loaded nature of the metaphor and rejecting it as misleading. Conversely, the public (or sections of it) may accept the leverage carried by the household metaphor, maybe even adopting it as a template for their future conversations around the state of the public sector. In this case, the metaphor has 'sunk in' to become part of the symbolic order of a particular society. As the performative utterances of the public enter into feedback loops, the new sign gains currency and acquires a sense of familiarity that conceals the assemblages that once coined it. Eventually, the sign accrues '*iconic*' features. That is, it comes to organise a complex web of semiotic connections that have become invisible over time.

²⁰ To do so, Konings draws from the tradition of pragmatist semiotics. Semiotics or semiology refers to the study of how meaning is made and carried through permanently mutating 'signs' – the basic unit of human communication. It must be noted that Konings' approach does not draw from the Saussurean structuralism that Foucault criticised earlier in the chapter. Rather, his inspiration harks all the way back to the nineteenth-century philosopher Charles Peirce (2015:32-33, 53-54). The difference is the following: whereas Saussurean approaches understand the mutation of meaning as a feature inherent to signification itself (i.e. signs are arbitrarily floating apart), Peircean pragmatism sees the production of meaning as an active process, constructed through the establishment of creative connections between existing signs.

For Konings (with Cooper, 2016), the quintessential icon is money. Even though the complex network of power and debt that confers value upon it is not readily understandable to the everyday spender, money ‘works’ because it has come to command a great deal of meaning by itself. This reflects a process of ‘*semiotic reversal*’, where the icon has become a source of authoritative meaning that can be used for further indexations.

The usefulness of this approach is that culture appears as the result of a perpetual struggle to give shape to the symbolic order. The notions of ‘performative agency’ and ‘indexation’ lend themselves to be incorporated into any analysis of political agency, as they involve an extension of struggle into the realm of signification. At the same time, the notions of ‘iconicity’ and ‘semiotic reversal’ are perfectly compatible with the conceptual apparatus of historical institutionalism (e.g. path-dependence, layering), according to which agencies crystallise and have long-lasting effects. Overall, this provides a series of conceptual instruments to capture the politics and historicity of discourse, facilitating the integration of the role of culture and ideas within a political Marxist framework.

2.5. Conclusion

The method outlined in this chapter is a response to the problems identified in the previous one. As I have shown, Marxist narratives of the Spanish crash struggle to accommodate the political into their accounts. Rather than highlighting how the Spanish experience was shaped by a historical trail of social antagonisms, they tend to emphasise the workings of social structures themselves, as if the rules that govern our social relations had a life of their own. In the end, they surrender the analysis of the political to the caricatures of neoliberal accounts. Thus, the question this chapter out with was the following: *how* can we reclaim the political away from immaturity narratives in order to build a Marxist narrative of the Spanish crash around it?

To explore this question, this chapter has gone back to the source: Marx himself. For him, the secret of historical development was a *political* one – that people make their own history, even if they do not choose the conditions of their own making. This political sensibility extended to his famous analysis of the capitalist mode of production, which he always insisted was a historically recent creation that had arisen out of specific class struggles and their crystallisation in particular institutions (e.g. private property). Yet the problem was that, when he sought to conceptualise the

specificity of this capitalist economy, he did so in the terms of preceding political economists. That is to say, by distilling purified laws of motion that seemed to explain away the role of political agency. The result was a contradictory methodological message for his successors, who ever since have battled over how to look at social phenomena: does a Marxist approach prioritise political struggle, or theoretical form? Many Marxists since Marx have opted for the latter, developing theoretical frameworks around abstract-formal and law-like categories, often reserving a secondary role to concrete historical analysis. The examples cited include the infamous base-superstructure model, what has been referred to here as ‘suspend and resume’ models, or the methodological separation between theory and history. The result is a purified outlook that reserves little analytical space to the contingencies of political struggle in the making of history.

To re-centre Marxism around ‘the political’ (i.e. the ways in which power struggles between groups and classes are constantly reshaping social structures), this chapter has embarked on an exploration of historicist methods. The thought of two prominent critics of Marxist structuralism – Michel Foucault and E.P. Thompson – have cast light on what historicism means. Though not a Marxist, Michel Foucault’s crafted his genealogical method precisely to centre historical analysis around the variables of power and contingency. Here the main lessons extracted from his work are his subversion of structuralism with a focus on how power is exercised through concrete practices and discourses, and his insistence on patiently historicising the lineages of institutions in order to not presuppose a particular finality in their development. However, at the same time, Foucault’s work carries an implicit structuralism of its own, as his erasure of the subject leaves agency in an awkward position. Thompson’s humanism provides a corrective in this regard. Challenging structuralism from within Marxism, Thompson, too, insisted on the importance of historicisation against abstract theory, but also on the role of conscious agency in the making of history. To do so, he did away with law-like and ideal-type categories and eliminated the conceptual separation between a ‘material’ base and a ‘social’ superstructure. However, while the insights of these authors provide an invaluable historicist ethic, their methodological pronouncements lacked instructions for their translation into practice.

For a more procedural approach, I have turned to the tradition of political Marxism, which forms the core to my historicist method. This tradition emerged around the work of Robert Brenner on the transition from feudalism to capitalism, where he argued that

this world-historical shift depended, in the last instance, upon the contingencies of political struggle rather than upon macro-structural causes. The historiographical method of the Brenner thesis bears important methodological insights for the historicisation of political agency, lessons that were later theorised and fleshed out by Ellen Meiksins Wood. This section finishes by noting the structuralist sway of Brenner's later work, identifying the source of the problem and taking the methodological insights of Samuel Knafo and Benno Teschke to buttress the historicist promise of political Marxism. The chapter then concludes with a final section exploring analytical complements from non-Marxist traditions, namely, from historical institutionalism and performativity. Rather than develop a fully-fledged synthesis between political Marxism and these traditions, the purpose of this section was to borrow some of their conceptual instruments to facilitate the rollout of my political Marxist method. In particular, I will have recourse to the terminology that historical institutionalists have crafted to capture long-term processes of historical change, and the framework of certain performative approaches, which capture the historical role of culture and ideas in terms of political agency and contingency.

Altogether, the method that emerges from this chapter tells us *how* to look at the history of the Spanish crash in a manner that highlights the political. Thus, the task of the next chapter is to use this historicist method to sketch out an alternative Marxist narrative of the great crisis of Spanish residential capitalism. To do so, it will deploy political Marxism's focus on political agency as the motive force of social change, supplementing its approach with the concepts of historical institutionalism (for material practices) and performativity (for immaterial discourses) in order to represent the political in motion.

3. The Political in Motion: Towards a New Narrative

3.0. Introduction

The previous chapter has outlined a framework of analysis that revolves around an open-ended historicisation of political struggle, a method inspired by the anti-structuralist tradition of political Marxism. This approach starts out from a rejection of structural models of social change, on the grounds that these tend to construct rigid theoretical prisms with an inbuilt confirmation bias. Putting abstract theory before any concrete reality, such approaches encourage us to pick historical evidence on an ad-hoc basis so that it befits an a priori model. Instead, rather than telling the evidence what it needs to tell us, we should be constructing a framework of analysis that is malleable and open-ended, so that it can adapt itself to the shape of the evidence and be completed by it. For political Marxism, this is inseparable from a radical focus on political agency as the driver of social change, for if social change were merely the product of the internal logic of social structures, then the past could simply be 'predicted'. Taking history seriously thus requires us to see it as a trail of political contingencies in motion, the outcomes of which are constantly *sedimenting* over one another to reshape the field for further political action – a process which the concepts of historical institutionalism (for material practices) and performativity (for immaterial discourses) capture particularly well.

The purpose of this chapter is to apply the historicist method fleshed out in the previous chapter in order to sketch a new critical narrative of the Spanish crash. My aim is not so much to 'uncover the true story' of the Spanish experience, but *to use the corrective lenses provided by the previous chapter in order to tell the story from a perspective that the existing literature has missed*. The narrative that emerges from this perspective is one that awards causal priority to the historicity of political dynamics, showing how these have incubated a historically specific form of residential capitalism. This alternative narrative will be centred around the interplay between two political processes that are highly neglected in the existing literature: (1) the evolution of an institutional apparatus of residential provision to address a near-perennial housing deficit, and (2) the historical patterns of political accumulation binding together the interests of public officials and those of the propertied classes. By the 2000s, the combination of these processes had given rise to a financialised form of

residential capitalism driven by a logic of clientelist transactions that culminated in a peculiar wave of residential overproduction.

The chapter is structured in four parts. The first part (3.1) acts as a theoretical discussion of how the methods and concepts articulated in the previous chapter have been deployed to make sense of the evidence, and of how these, in turn, have been shaped by the evidence itself. Put simply, it will serve to clarify what the concepts discussed in the previous chapter – e.g. ‘social-property relations’, ‘apparatus’, or ‘political accumulation’ – have come to mean in my historical analysis of the Spanish property market.

Following this theoretical synthesis, the remaining three parts articulate a genealogical analysis of the two processes outlined above. Each part corresponds to a distinct historical period, defined by a particular arc of political struggles that culminate in lasting institutional settlements. This structure serves to highlight the build-up toward particularly important turning points in the narrative (what historical institutionalists call ‘*critical junctures*’). To be sure, this does not mean that instances of political agency are limited to start and finish of these periods. Indeed, the *sedimentation of politics*, in the manner outlined in the previous chapter, is a constant process, one that gradually leads up to the next major turning point of the narrative. Part two (3.2) focuses on a long nineteenth century of struggles around the establishment of liberal private property (ca.1834-1939). Part three (3.3) revolves around General Franco’s long dictatorship (1939-1975), and the creation of an apparatus of residential provision. Part four (3.4) will focus on the democratic period that followed (1975-2008), tracing the legacies of the previous two periods until the advent of the global financial crisis. Each part is split into two parallel sections: one examining the patterns of political accumulation and struggle in the period, another tracing the evolution of the property market throughout the same time span.

3.1. Applying the Method: Theoretical Synthesis

As established in the previous chapter, the answer to the contingencies of historical knowledge cannot be to retreat into a realm of purified theoretical analysis. The point should rather be to intensify the dialogue between theory and history, so that they both complete one another. This is the purpose of this opening section: to clarify how the conceptual tools acquired in the previous chapter have informed the examination of

the Spanish case, and, vice versa, to examine how these concepts have been shaped by the historical evidence encountered.

The first task is to clarify how the method outlined in the previous chapter has served to narrow the object of historicisation through comparison. As addressed earlier, comparative analyses are not only useful to establish structural regularities and craft taxonomies (e.g. varieties of capitalism, housing regimes), they can also be deployed for the opposite purpose, namely to isolate irregularities that cannot be accounted for by macro-structural patterns. This is because these inconsistencies highlight that which needs to be historicised. The previous chapters have already deployed *synchronic comparisons* across spatial contexts to map out how similar structural pressures were refracted into different outcomes (e.g. the macroeconomic imbalances of the single currency). In the case of Spain, the most peculiar aspect of the crisis was an unparalleled wave of residential overproduction, an irregularity which still sits uncomfortably in existing narratives. Having problematised this object of inquiry, the next logical step is to use history to explain why this happened. To do so, this chapter will deploy *diachronic comparisons* – across time periods – to identify the *critical junctures* in the path towards the Spanish crash, and to historicise the build-up of political agencies leading up to them.

To historicise how the institutions of the Spanish property market have evolved over time, political Marxism lends us the useful notion of *social-property relations*, meaning the institutions mediating relations of production, property, and domination in a given time period. The broadness of this category is deliberate, as it is meant to remain open-ended and elastic so that it can adapt to a particular historical context. This gives us a good grip over concrete practices and discourses and prevents us from inadvertently slipping into macro-structural explanations (e.g. the generic laws of capital accumulation). In the analysis of the Spanish property market that ensues, the analysis of social-property relations will be extended to a broad ensemble of institutions: e.g. property rights; urban planning structures; land valuation procedures; taxation systems; forms of tenure; mortgage regulations; cultural expectations of property.

An important feature of the notion of social-property '*relations*' is that the term itself builds power dynamics into the analysis of institutions, turning them into objects of inquiry that are inseparable from the political agencies that traverse them. It is through this prism that political Marxists understand the notions of *class and class conflict*, as

‘*structured processes*’ – a notion borrowed from E.P. Thompson (see Wood, 2016:76). This means that, though material grievances constitute the locus of political conflict over social property-relations, the class agencies that arise over these grievances are social constructs of their own; they must be historicised rather than deduced from an actor’s structural position. In the Spanish context, struggles over social-property relations have played out around issues such as housing deficits; the affordability of housing; the right to hoard land; the dearth of urban infrastructure; and the uneven distribution of mortgage finance. Political conflicts over these social-property relations have manifested in diverse forms of class conflict, both *vertical* (e.g. between urban dwellers and property developers) and *horizontal* (e.g. between different factions of landowners or public officials). Though not exclusively, these class conflicts have most often played out through the structures of the state, either by capturing the nodes of public power (e.g. via election, corruption, or revolt), or by forcing public authorities to bend to class demands (e.g. through social unrest or by withholding investment).

An analysis of contemporary patterns of class conflict over social-property relations reveals a long lineage. Indeed, their genealogy forces us to trace their origin to the very foundations of liberal modernity, when private property became legally enshrined as the dominant form of ownership. This process turned up the pressures of *market dependence* on vast swathes of the population, who became increasingly reliant upon commercial exchange to provide for themselves, be it by forcing them to produce for profit or to sell their labour to others. The needs of this market-dependent population came up against the privileges of the wealthy propertied classes, who were now equipped with hardened property rights to profit from their necessity. The result were mounting tensions over liberal social-property relations, as a market-dependent population pressed against what was now the socially available land. These structural tensions cut across the urban-rural divide. In the countryside, they usually manifested as class conflicts over access to farmland, whereas in the city, they usually manifested as class conflicts over access to housing. It was only in the second half of the twentieth century, with the evacuation of the countryside during the rural exodus, that the pressures over farmland were eased as the rural poor relocated *en masse* to urban areas.

It is important to note that reference to *liberal* social-property relations here does not imply *capitalist* relations of production. For the sake of precision, *liberal* social-property relations will refer to all those institutions and social dynamics that trace their source to a legal framework in which property ownership is protected, both from the

whims of the state (i.e. arbitrary expropriation) but also from the social needs of the majority (which under Spanish law is codified as ‘public interest’). Even though they have often acted as a necessary precondition, liberal social-property relations do not warrant the emergence of *capitalist* relations of production, which denote a much more specific commercial dynamic of competitive productivity (even if the former often act as a precondition for the latter). Indeed, the development of capitalist accumulation in Spain began prior to the implementation of liberal property rights, and in some areas it appeared long thereafter.²¹ For this reason, it would be extremely misleading to use frameworks such as the ‘laws of motion’ or the ‘circuits of accumulation’ of capitalism as a prism for historical analysis, as this would require us to assume precisely what needs explaining.

The conceptual framework outlined above has served to sketch an alternative narrative of the Spanish crash that revolves around political conflict over liberal social-property relations. This narrative centres around an interplay between the following two processes: (1) the evolution of an *institutional apparatus* to address the perennial problems occasioned by liberal property and (2) the historical patterns of *political accumulation* binding together the interests of public officials and those of the propertied classes.

(1) Borrowing the term from Foucault, the notion of *apparatus (dispositif)* here refers to an ensemble of material practices and immaterial discourses that are mobilised in a given historical period to address what is perceived to be an urgent need. In this chapter, I shall examine the formation of an apparatus to address the problems derived from liberal property: first as a ‘property’ apparatus that addressed how liberal pressures manifested across city and country, and, after the rural exodus of the twentieth century, as a specifically ‘residential’ apparatus in urban areas. Most often, the design of the property apparatus has reflected the power of the classes that have held a disproportionate power over the state: the propertied. Thus, the issues occasioned by liberal property have been mostly problematised through the prism of propertied interests, often with the explicit purpose of working around the problem with palliative measures. By the turn of the millennium, the layered development of

²¹ In Spain, capitalist accumulation traces its origins to the textile proto-industries of eighteenth-century Catalonia, which were experiencing bouts of overproduction as early as 1786-9 (Thomson, 2005:725; Moreno, 2018). It would take a very long time for similar patterns of accumulation to spread to the industrial and agricultural productive sectors of other regions. For example, the capitalist steel industry of the Basque country dates of the 1880s (Sáez, 2017). In the case of residential production, patterns of capitalist accumulation are not evident until at least the 1960s (see chapter 5).

this apparatus had incubated a property development industry with a peculiar tendency toward residential overproduction.²²

(2) The grip of the propertied classes over state power has adopted different forms in different time periods, though it has always involved patterns of political accumulation. Brenner's term '*political accumulation*' refers to processes of elite competition mediated by non-commercial mechanisms. In what follows, this applies to landowners or property developers mobilising personal or financial means to secure political favour, but also to a political class engaging in clientelist dynamics to reproduce their access to state power (either by raising illicit campaign finance from bribes or by rigging elections outright). In the Spanish real estate market, the allocation of public resources through clientelist transactions is of particular importance, as these dynamics were immanent to the logic of the property bubble of the 2000s.

Highlighting the autonomy of political agency, both in the construction of a particular residential apparatus as well as in the social dynamics of elite competition, this theoretical framework provides a corrective lens to the structural bent of existing narratives of the Spanish crash. In teasing out the historical specificity of the Spanish experience, it provides a perspective that is inevitably lost in accounts that reduce this case to the outcome of an external economic imbalance, or to a generic structural law of causation.

3.2. The Long Nineteenth Century (1837-1939)

In the century that span from the fall of absolutism to the Spanish Civil War, Spain saw the consolidation of a liberal 'state project' – i.e. a particular strategy to give operational unity to the state (see Jessop, 1990:9) – that was founded upon the enshrinement of private property as the dominant form of ownership. The politics of this state were dominated by the interests of a propertied oligarchy, who succeeded in excluding the urban and the rural poor from the political process. This exclusion first happened *formally* – with heavy restrictions on the suffrage – and later, in response to the continuous agitation of the underclasses, *informally* – through a clientelist system of rigged elections ('*turnismo*'). These political structures ensured that the

²² Though, as we shall see, in some cases alternative apparatuses have been set up outside of the purview of the state: e.g. the formation of Catholic credit cooperatives and the communisation of property by anarchist militias during the Spanish Civil War.

spatial problems occasioned by the social-property relations of liberalism (e.g. shrinking access to rural property, the dearth of urban housing) were addressed through the prism of the interests of a propertied oligarchy. Over time, a series of measures were deployed to work around these problems, but always without tackling their source, namely the institutionalised class power of the propertied classes. The result of this ‘muddling through’ was a liberal property apparatus that, more often than not, tended to reinforce the power of the urban and rural landowners. The failure to find a hegemonic basis for this order – i.e. the resolution of conflicts between particular interests and the general interest (see Jessop, 2009:161) – resulted in mounting social grievances that culminated in the Spanish Civil War.

3.2.1. The Contradictions of Liberal Property: Pacifying the Masses

After two decades of violent struggle between the supporters of absolutism and liberalism, the Liberal Revolution of 1836-7 brought a decisive victory for the latter. Central to their state project was the extension of private property – a form of ownership protected from arbitrary public expropriation – and the abolition of alternative forms of ownership (Fontana, 2008:176-183). This posed a frontal challenge to the feudal powers of aristocracy and clergy, whose seigneurial estates exempted them from paying taxes and conferred them powers to extract rents from peasants (e.g. tithes). Starting in 1837, these assets were expropriated by the state and auctioned to the highest bidder as private property. In the process, the estates were stripped of their feudal privileges, which were effectively abolished (Shubert, 1990:57-60). This universalisation of private property also came at the expense of the pre-modern ‘moral economies’ that had previously been at the disposal of everyday people. For example, the guilds protecting the urban crafts were abolished and common lands were privatised. Around these property relations crystallised a rationalised state structure, with a provincial administration and a unified fiscal regime, capable of levying money taxes – rather than goods-in-kind – across all segments of the population. This forced social groups that were previously insulated from market pressures to engage in commercial exchange in order to meet their fiscal duties.

The liberal settlement created a constitutional monarchy where the public realm was no longer the personal property of the monarch, but the collective ownership of an imaginary ‘nation’ that had to express itself democratically. And yet, this liberal state only made itself accountable to the wealthiest males. As the Marquis of Miraflores, a prominent liberal ‘moderate’, put it: ‘Political freedom ought to be based on the rich

proprietors, the traders, on the great number of enlightened members of the clergy, on the great part of the army, in short, on every man of worth in the social order [...] a gathering of the country's essential interests' (quoted in Fontana, 2003:147). In practice, this meant that until the end of the nineteenth century, successive electoral laws restricted the vote to between 0.5% and 5.7% of the census (Linz et al., 2005:1089). The urban and the rural poor, who found themselves on the sharp end of the liberal order, saw themselves deprived of any democratic means of political struggle. Perhaps for this reason, the advent of liberalism ignited a century of political violence around its institutions of property and domination, what political Marxists call '*social-property relations*'.

Political violence became the dominant form of struggle between 1833-1875, something that would lead to Marx's observation (2009:29) that the revolution in Spain had taken on 'the appearance of a permanent condition'. In the countryside, Spanish liberalism would meet 'Europe's most tenacious reactionary movement': *Carlism* (Vincent, 2009:10-11; Shubert, 1990:57-60).²³ Carlism was an unholy alliance between the lower nobility and the rural poor that was instigated from the pulpits of the Catholic Church, where the clergy gave ideological cogency to an anti-liberal movement by appealing to the affective power held by tradition at the everyday level. In the coming decades, three Carlist uprisings detonated successive civil wars that shocked Europe with their brutality (1833-1840, 1846-1849, 1872-1876). Even though Carlism found some supporters in urban areas (particularly amongst artisans of decaying crafts) cities were generally seen as a hotbed of 'liberal' agitation, a label that at the time applied to a broad spectrum of opponents to the return of absolutism, from mild reformers to proto-socialist activists (Fontana, 2008:168-9). The resulting contradictions within this liberal movement erupted cyclically. On the one hand, the *horizontal class struggles* within the political class (i.e. between 'moderate' and 'progressive' elites) were often fought out via their respective factions in the military, which staged innumerable coups d'état in this period. On the other hand, this liberal elite often found itself fighting *hierarchical class struggles* against the more radical urban masses, who regularly revolted against the conservative bent of Spanish liberalism to demand a further democratisation of the state, the expansion of civil liberties, and the public provision of those in need. The radicalism of the industrial working class found its highest expression in the Paris Commune-style uprisings of

²³ Carlism was a coalition of the lower nobility of the Basque-speaking regions, who wanted to preserve their self-governing institutions from a unitary liberal state, and the rural masses, especially impoverished small peasants and landless labourers. Indeed, the earliest Carlist uprisings spread across the country following the movements of seasonal harvest workers (Fontana, 2008:130).

1873, when the urban poor in a number of cities rose up in arms to proclaim municipal republics (the Cantonal rebellion) (ibid:385-408, Brennan, 2011:246-252).

The liberal elites emerged from the Cantonal rebellion with a renewed awareness of the need to suspend their horizontal struggles in order to dominate more effectively an agitated underclass. The political class thus proceeded to renew their state project in order to pacify the masses and ensure the continuity of liberal social-property relations. Starting in 1875, the democratic process was reduced to an empty shell. Liberal conservatives and progressives agreed to peacefully alternate governments via a system of rigged elections, the so-called *turnismo* system (Brennan, 2011:31-40). In this two-party state, the theatricalisation of elections was orchestrated at the highest echelons of the state. The orders would pass down to provincial governors, who would determine which candidates should win and by what margin, in urban areas often coordinating the process themselves. In rural areas this process was delegated to local strongmen, colloquially referred to as *caciques* ('tribal chiefs'). These figures were usually large landowners, who used their power over indebted peasants or waged labourers to coerce the locals into choosing the designated candidates. In exchange, the *caciques* received protection from provincial governors, active support from the local police, the judiciary, and the local government. Variations of this system allowed the country's elites to steer the direction of the state over the next four decades, creating a façade of democratic process that included the (purely cosmetic) introduction of universal male suffrage in 1890.

The clientelist governance of the *turnismo* period created several decades of artificial political stability at the parliamentary level, but this did not prevent social tensions from continuing to mount beneath the surface. In the meantime, the rise of capitalist economies of scale had crushed an older artisanate, turning them into strike-prone industrial proletarians (Martínez, 2007). Agrarian day labourers, who abounded around the large estates of the south, saw their meagre wages fall 20% throughout the nineteenth century (Shubert, 1990:80). Peasant smallholders held onto their farms to avoid this fate, but it was hard to resist the encroachment of the large landowners, from whom they regularly borrowed at extortive interest rates. These grievances facilitated the dissemination of ideas subversive of liberal social-property relations, especially anarchism, which called for an outright reconstruction of the commons and the abolition of the central state. Anarchist activism inspired anti-colonial riots in 1909, as well as the country's first general strike in 1917 (Bookchin, 1998). These social struggles became more virulent after the Russian Revolution, when landowners and

industrialists began to hire gunmen to terrorise their workers, actions that were in turn reciprocated by anarchist groups (Brennan, 2011:129-133).

The liberal state also faced the threat of regionalism. The liberal project of a unitary state came with attempts to ground this structure in a single national identity largely defined by Castilian culture. Yet this wager came up against the decay of Spanish power in the international arena and the concentration of industrial development in areas with distinct cultures that refused to assimilate, resulting in the emergence of competing national identities with liberal elites of their own (Heywood, 1988:14-17).²⁴ This process was particularly pronounced in Catalonia and the Basque Country, where regional nationalist forces emerged as significant electoral actors by the 1920s.

As the fraudulence of the democratic process became increasingly evident over time – sometimes, the state bulletin would announce election results even before the vote had taken place – the *turnismo* system collapsed under the pressures of public disorder in 1921 (Brennan, 2011:130). The army intervened, the electoral process was put on hold and a military dictatorship under the auspices of Primo de Rivera was installed (1923-1930) (Shubert, 1990:28). This regime attempted to ease the pressures of liberal social-property relations through public spending (i.e. by investing in public infrastructure works and in social housing), but it failed to remain in control in the wake of an industrial crisis in 1928 and the banking crisis of 1931. Despite new attempts to rig the elections, local elections that year saw the populace punish the establishment (and, in particular, the monarchy) for its compliance with dictatorial rule in the previous decade. The overwhelming result of left-wing republican parties prompted the flight of the King and the proclamation of a republic in the streets of Madrid.

The frail republic of 1931-1939 was the first democratic experiment in Spanish history, an experience that was torn apart, again, by violent struggles over liberal social-property relations (Brennan, 2011:85-190). An initial left-wing administration introduced a series of reforms that eased the pressures of the liberal order on the masses: the 8-hour working day; the right to strike; the creation a public (and secular) education system; and, perhaps most controversially, the redistribution of the lands of a powerful landowning class. This was a particularly delicate subject, as it confronted

²⁴ Unlike other European countries, for Spain, the nineteenth century was an age of imperial dismemberment. After the loss of continental Latin America in the period between 1810-1830, what remained of Spain's global empire was reduced to a few African footholds after defeat in the Cuban War of 1898. In the aftermath of this strenuous military defeat, Catalan nationalists adapted the flag of a recently independent Cuba into their own national imagery (the *estelada* flag), and began to push for secession as well.

the interests of an oligarchy that had grown accustomed to unrivalled power (indeed, some sections of this class went to the lengths of financing a failed coup d'état in 1932). When a coalition of radicalised right-wing parties seized power in the elections of 1933 (which included the landowners' party, the *Partido Agrario*), the new government proceeded to revert the land reform and began to inspire fears of a fascist-style takeover resembling those taking place elsewhere in Europe at the time. One year later, a recently devolved Catalan parliament proclaimed the 'Catalan State' and asserted its sovereignty to undertake land reforms without the consent of Madrid. The same month, a general strike culminated in a massive armed uprising in the mining region of Asturias. Both challenges were put down by the military, the latter under the orders of a rising star in the Spanish military: General Franco. These events propitiated the victory of a coalition of left-wing parties and anarchists in the elections of 1936, an event to which the military responded with a new coup d'état. The Spanish Civil War had begun.

3.2.2. A Haphazard Edifice: The Liberal Property Apparatus

To understand the conflicts riddling the long nineteenth century, one needs to understand how the Liberal Revolution of the 1830s preserved the concentration of lands at the hands of a small oligarchy. The original promise of the liberals was to redistribute the lands of the aristocracy to create a peasant democracy grounded in an electorate of small proprietors (see Fontana, 2003). However, to realise this hegemonic strategy, they had to strike a deal with a paradoxical ally: the landowning aristocracy. Once the upper nobility realised that the crumbling of the old system of feudal rents was irreversible, they agreed to a settlement that would expropriate their estates and auction them off as private property (Fontana, 2008:176-183). However, in exchange, they demanded extremely generous compensations that ensured them the necessary liquidity to repurchase their lands in such auctions, thus preventing the redistribution of lands that was originally envisioned (Shubert, 1990:86). The contingency of this settlement also solidified the legal notions of 'private property', as well as lawful 'expropriation'. Both legal categories further institutionalised the power of the propertied oligarchy by limiting the purview of the state.²⁵ The aristocracy's manoeuvre is a good example of how the exercise of political agency in critical junctures can have lasting historical consequences: the success of their wager meant

²⁵ For the law of 'disentailment' abolishing the seigneuries, see *Ley de 21 de Febrero de 1836, de desamortización* (1836). For the law generalising the juridical form of private property, see *Ley de 6 de Septiembre de 1837* (1837); for the law first regulating the practice of public expropriation, see *Ley de 17 de Julio de 1837, de expropiación forzosa* (1837).

that the landowners of the *ancien régime* entered modernity with a renovated form of class power, inflecting a highly elitist and conservative bent upon Spanish liberalism for decades to come.

The new liberal social-property relations unleashed harsh material pressures on city and country. In the countryside, the fiscal reforms of the liberal state forced the peasants to pay their taxes in money. This made them *market dependent*, as they were forced to sell their products at urban markets (Fontana, 2008:99-100). The lack of credit available meant that many smallholders regularly depended on moneylenders to pay their taxes or buy seeds, a dependence that exposed them to large landowners, who charged the extortionate interest rates, locked them into debt traps, and then took over their farms (Shubert, 1990:88-90). The resulting dispossession of the peasantry swelled up the agrarian proletariat and exerted a downward pressure on their already meagre wages.

The result was a general deterioration of rural conditions which pushed many to migrate abroad or to try their luck in the cities. At the time, there were two ongoing rhythms of urbanisation. On the one hand, there was a 'bureaucratic' rhythm derived from the reform of the state administration in 1833, which created 50 provincial divisions with their respective capitals. The needs of a rising bureaucracy meant that the new administrative centres would sustain levels of growth well above average in this period (Shubert, 1990:45). On the other hand, there was the 'industrial' rhythm of capitalist production, a pulsation confined to specific regional pockets in this period – foremost, Catalonia and the Basque Country (Nadal et al., 2003; Sánchez, 2012:14-5; Fontana, 1978:73). The problem is that there was no specialised construction industry to address the unprecedented pressures upon urban space. Back then, residential development was an occasional affair, carried out by urban landlords who generally lacked the access to the finance or expertise to engage in construction operations at the scale necessary to keep up with modern urbanisation (Tafunell, 1992).

In short, the advent of liberal social-property relations resulted in the growth of a *market-dependent population* that began to press against the socially-available land, both in city and country. As unrest spread, a number of institutional fixes were devised to palliate the problems occasioned by liberal property. This was a liberal apparatus devised by a propertied elite who interpreted the problems through the prism of their interests. These measures were mostly financial, designed to improve the access to mortgage credit for those who wished to purchase or develop property. In other words,

these solutions could only *work around* the problem by widening access to the property ladder, rather than by tackling the problem of liberal property itself.

Reflecting the balance of forces represented by the state, the urban property apparatus was founded upon a settlement highly favourable to the urban landowning class. To address the demographic pressures building in urban areas, the Spanish state imported French planning methods to build spacious Haussmann-style boulevards around old medieval city centres, the so-called *ensanches* or ‘enlargements’ (Angosto, 1998:35-37). Owners of farmland in the newly designated urban plots were expected to build according to the plan, by costing the development of housing and urban infrastructure themselves, or else to sell the lands to developers who would be willing to do so. The state, building on the legal framework of the agrarian reform of a couple decades prior, reserved for itself the power to expropriate them and auction the lands to the highest bidder. However, long gone were the days of the old absolutist monarchy, when the whims of kings were enough to justify the confiscation urban property without compensation (ibid.:35). Private property was now the norm, and mass processes of expropriation required costly compensations that the state was incapable to finance. The idea of giving the state a heavier hand in urban development was floated by the Posada Herrea *Ensanhcce* Bill of 1861, which included the notion of forcing landowners to build according to the plan under the threat of punitive measures. However, running counter to the spirit of the times, this measure was rejected in favour of its polar opposite: the liberal *Ensanche* Law of 1864 (see Orduña, 2002:291-5). Rather than curbing property rights, this law devised a peculiar system of public valuations that would artificially inflate the value of *ensanche* lands by factoring in the potential costs and profits from derived from building homes upon them. The logic of this measure was that it would incentivise urban landowners to build, as they could use the inflated value of their assets as collateral, thus facilitating the process of raising the capital necessary to build (Fernández, 2005, 2009).

The problem was that these measures created a perverse structure of incentives at an *everyday level*: landowners began to hoard their lands in order to taunt the state to expropriate them, knowing that they would be compensated not only for the lands themselves but also for the imaginary cities that they could build on them (Marcinkoski, 2016:68-72) – a performative gesture if there ever was one. Speculators began to purchase lands around city centres ahead of their designation, only to wait for a change in the urban plan to inflate the value of their assets. Once these social-property relations had settled in, they became deeply entrenched, particularly given

the clientelist politics of the *turnismo* period, when one could corruptly secure local ‘tip-offs’ about imminent planning decisions. The result was a surrendering of the urban process to the interests of an urban landowning class, and, in pace with these hoarding patterns, planned *ensanches* often took decades to be completed. In the meantime, slum towns mushroomed around industrial areas out of sheer necessity (Pedro, 2001:187).

The lack of a dynamic property market prevented the emergence of a specialised construction industry that could countervail the hoarding tendencies of urban landowners. A major problem was the scarcity of mortgage credit available. Banks were generally averse to mortgage lending due to the long amortisation times, which made it a long-term and unattractive investment. Moreover, the absence of mortgage credit in urban areas meant that the overwhelming majority of city dwellers were renters, so that property development projects were almost invariably build-to-rent operations (Tafunell, 1992). The dominance of rent made property development a risky and unattractive venture, as it required large sums of investment with long amortisation times (just like mortgages for banks). Thus, property development remained an occasional affair, a business typically driven by urban professionals who owned a patch of land in the *ensanche*, and who were ready to make a long-term investment that would secure them a regular stream of rents from their tenants, which in any case only served to complement their main source of income.

The lack of mortgage credit available was a problem that extended into the everyday life of the countryside. The problem was particularly acute amongst small peasants, as these required regular credit to purchase seed or to pay workers for harvest operations (Shubert, 1990:88-90). To raise this finance, smallholders often turned to the moneylending of large landowners who would usually charge them interest rates of 20%, sometimes more. The scale of this problem was huge: 200,000 small farms were repossessed between 1880-1886 alone. The state recognised the issue and proceeded to devise institutional fixes that cut across city and country. The nineteenth century saw creation of local savings banks (*cajas de ahorro*) to address the scarcity of mortgage credit for small debtors and to educate working people on the values of creditworthiness and discipline (Comín, 2012:147; Cabello et al., 1987). Placed under the purview of the state from 1880, these institutions palliated the problem in city and country. However their efforts were ultimately confined to small-scale operations within a local radius. Thus, they could not cover the true scale of the demand (Martín-Aceña et al., 2014:44).

To increase the pool of available mortgage credit, the state regulated the practice of mortgage-backed securities, allowing financiers to circumvent the long amortisation times of mortgage credits by selling them as bonds in stock markets. In 1873, a monopoly over this practice was given to a large, semi-public bank, the *Banco Hipotecario de España* (BHE), which quickly became the largest financial institution of the country (Orti, 1995). These efforts, however, were quickly captured by elite interests. The BHE had notorious links to the establishment and focused its operations on large rural and urban ventures rather than on the needs of lay people (Cabello et al., 1987). For example, in the countryside, the BHE provided cheap finance to large landowners, who would in turn lend to small peasants at extortionate rates. Early-twentieth-century attempts to spread mortgage securitisation to other credit institutions, including the *cajas de ahorro*, in order to expand the amount of finance available to the populace were repeatedly blocked by a BHE fiercely protective of its monopoly.

The neglect of the needs of the small peasantry was particularly acute. The dominance of an agrarian oligarchy ensured the passivity of the political class between 1872 and 1919. Instead, forms of cooperative finance (*cajas rurales*) had to be pioneered by Catholic institutions from outside of the state. These institutions were created with the explicit purpose of saving small farmers from ‘capitalism and ruin’, but also to contain the spread of subversive ideas amongst the rural poor that were harmful to the continuity of Catholic traditions (Shubert, 1990:88-90). The success of these institutions – which boasted 600,000 members by 1920 – resulted in the entrenchment of reactionary ideas amongst the northern peasantries, which remained a hotbed for Carlist agitation well into the twentieth century.

The dearth of urban housing did inspire a few attempts to erode property rights to facilitate the public expropriation of urban landowners, particularly given the growth of working-class agitation in this period. However, none prevailed (Dávila, 1991). Only around 1910, and against a backdrop of intensifying working-class unrest, did local governments begin to develop public housing (*casas baratas*), which could be rented or sold to their occupiers. These efforts were stepped up in the 1920s under the paternalistic dictatorship of Primo de Rivera, remaining, however, a largely palliative measure. Slum conditions and overcrowded attic rooms remained the norm for working people throughout this period. In the context of a highly oligarchic state, public officials were more responsive to the horizontal conflicts between the urban

landowning class. Whereas downtown landlords insisted on having lax hygiene regulations so that they could cram tenants into their attic rooms, the landlords of the *ensanche* insisted on introducing such regulations to increase demand for properties in the outskirts (Pedro, 2001:187-194).

In the end, the most ambitious projects to redress the problems of liberal social-property relations would have to wait until the instauration of democracy in Spain's interwar republic. These efforts, particularly the attempt to redistribute large landed estates amongst small peasants, were perhaps the most immediate cause of the Civil War. For the prominent social historian Gerald Brennan, who witnessed the build-up to the conflict himself, 'the obstinacy of the Spanish wealthy classes to not cede an inch on this question [land reform]' was 'the foremost cause of the civil war' (Brennan, 2001:200). Indeed, the social revolution that unfolded during the Spanish Civil War quickly escalated into attempts to rebuild the commons, as anarchist militias proceeded to communise lands and confiscate urban property, the dramatic culmination of a century of escalating tensions around liberal social-property relations (Shubert, 1990:98).

3.3. The Francoist Dictatorship (1939-1978)

The long dictatorship that emerged from the Spanish Civil War employed a populist rhetoric that promised to protect the working classes from the predations of a liberal elite. In practice, however, the Francoist state simply redirected the oligarchic clientelism of the previous age through the structures of its opaque bureaucracy, which excluded the populace from its decision-making and ensured commercial success to the most well-connected private actors. This authoritarian state project had a paradoxical relationship with liberal social-property relations. On the one hand, it restored the class power of the rural landowners, who had been foundational to it. On the other hand, it attacked the interests of urban landowners and financiers in order to protect the working classes, setting up systems of public housing and finance. The inability of these measures to effectively address the problems inherited from the nineteenth century (e.g. the housing deficit only became more acute), resulted in a volte-face in the 1950s, when the state began to encourage property developers to build as much as possible by incentivising their profit motive. The result was the incubation of a capitalist apparatus of residential provision, a development that transformed the dynamics of the property market for decades to come.

3.3.1. *The Francoist Paradox: Fascism and Liberal Social-Property Relations*

At the helm of the insurrection against the Spanish Republic were General Franco and his brutalised colonial troops, who ‘regarded the Spanish proletariat in the same way as [they] did the Moroccan, as an inferior race that had to be subjugated by sudden, uncompromising violence’ (Preston, 2011:71-92). The military uprising was flanked by a series of right-wing militias. (1) The Falangists, a fascist movement founded by Primo de Rivera’s eldest son. The Falangists believed Spain’s problems to lie in three axes of struggle – party politics, regional separatism, and class conflict – and vowed to smash all three under the shell of an authoritarian state. (2) The remnants of Carlism amongst the small peasantries of the north, who rose up one last time to defend a Catholic Church that had blessed the insurrection as a ‘holy crusade’. (3) The paramilitaries on the payroll of rural landowners, who undid the Republic’s land reforms in lockstep with the army (Barciela, 1996). From this coalition emerged the totalitarian dictatorship that would rule the country over the next four decades. Though political struggle between parties was banned in this period, the Francoist state was governed by a complex political equilibrium between competing state projects, in which Franco acted as an ‘arbiter to whom different factions in power [could] appeal in the last instance’ (Soler, 1969). Indeed, the dictatorship was rife with horizontal struggles between the ruling bureaucracy, to the point that Franco referred to his government council as his ‘pocket parliament’ (Cardesín, 2016:268).

The leading faction in the immediate post-war years were the Falangists, who imbued the new state project with a markedly fascist character. The backbone of this new formation were a series of institutions known as *Movimiento Nacional*, which included the single party (*Falange Tradicionalista*) and a web of corporatist trade unions (*Sindicato Vertical*) (Babiano, 2008). An extremely repressive apparatus ensured the physical destruction of a previous generation of working-class activists. In the terror that ensued, the anarchist movement of the interwar years effectively abandoned the stage of history (Soler, 1969). State power was exercised in a highly centralised manner, without democratic checks, as local governments were generally designated by appointment, regional governments vanished, and cultural minorities saw their languages and symbols suppressed.

A revolutionary movement of sorts, fascism carried an anti-capitalist streak that vowed to protect the working classes from the predations of a parasitic liberal elite. This populist project translated into an initial threat to liberal social-property relations,

extending the grip of the state over private enterprise by commanding the financial sector, setting wages, and developing public housing. These projects came up against a dire economic situation. After the Spanish Civil War, the country plunged into a long economic depression, particularly in the context of Spain's commercial isolation after the defeat of Nazi Germany and the denial of Marshall aid by the US. Fifteen years after the War, an average Spaniard continued to subsist on the minimum calories necessary for survival (Harrison, 1993). Hunger caused productivity to decline across the board, and in response wages were dramatically squeezed (Soler, 1969). At the same time, a populist rhetoric clashed with the political influence of rural landowners and the soaring profits of the finance industry, which had been made strongly dependent upon the state for the allocation of resources (e.g. licenses, finance, etc.). The public control of private enterprise without democratic checks translated into a rife clientelism, as firms developed clientelist ties with state officials to ensure the continuity and expansion of their businesses: 'irregular practices were the direct result of the very nature of the political system' (Cardesín, 2016:268). In short, corruption acted as a form of political accumulation that continued to reproduce old patterns of class domination under the shell of a supposedly populist state.

The Falangists lost their grip on power in the 1950s, when Spain came out of its isolation because the United States legitimised the regime as an anti-communist ally at the onset of the Cold War. The Spanish state received a large US-dollar loan in exchange for military bases and a clearer alignment with the Western camp in the Cold War (Amodia et al., 1998). In exchange, the government toned down its anti-capitalist rhetoric and began to adhere to the instructions of the Bretton Woods institutions. The Falangists started to fall from grace, not least because of the disaster caused by their policies in the previous decade. Their downfall was accelerated by the rise of a new generation of working-class activists around the mid-1950s – this time of communist inspiration – whose pressure forced the government to command an increase in wages (Soler, 1969). In this context, a market-friendly faction of government officials, generally drafted from the ultra-Catholic sect *Opus Dei*, began to rise through the ranks. The Falangists slipped out of government in 1957, when the country's dollar reserves were on the verge of depletion, threatening a much-needed stream of imports. After some years of turf war within the state bureaucracy, the remaining Falangists were purged from key positions around the turn of the 1960s.

From this horizontal struggle within the bureaucratic class emerged a 'second' Francoism, one much more open to 'the market', even if still within the parameters of

a *dirigiste* state. The centrepiece of the technocratic state project was the Stabilisation Plan of 1959, which set in motion a decade of extremely fast industrial growth, a period remembered as the age of *desarrollismo* or ‘developmentalism’ (Amodia et al., 1998). This fast wave of industrialisation was based on the privilege of Spanish ‘backwardness’ (Gerschenkron, 1962): the country began to import obsolete equipment from more technologically advanced countries in order to improve production at great leaps (Catalán, 2003:238; Charnock et al., 2014:35). To pay for these imports, the dictatorship opened up the borders of its ‘moral reserve’ to mass tourism, which brought in a steady flow of foreign currencies. This period was publicised by the dictatorship as an ‘economic miracle’, and it was expected to keep working-class subversion in check.

Yet the promise of ‘development’ failed to appease an unruly working class. By the late 1960s, an enlarged industrial proletariat was demanding democratic accountability, higher wages, and better housing conditions, looking to northern European countries as the standard to match (Martínez, 2011). Unlike the western European ‘Fordism’ of the post-WWII years, ‘Spain did not join the welfare state model that was emerging in western Europe within the framework of the Bretton Woods system [...] fiscal policy based on redistribution was unthinkable’ (Cardesín, 2016:290). In response to growing working-class unrest, the state of exception was declared in 1969 and a new wave of brutal repression and extrajudicial killings ensued (Soler, 1969). These signalled the death throes of Francoism.

Into the 1970s, the dictatorship lost control of the situation. A clandestine *Partido Comunista* (PCE) was organising unofficial trade unions so strong that employers had to informally recognise them as negotiating parties (*Comisiones Obreras*). Neighbourhood assemblies sprouted to struggle for better housing conditions and participative local governments in the tradition of the socialist municipalism of the nineteenth century (Martínez, 2011). This atmosphere of resistance and political violence was aggravated with the inflation crisis and the closure of factories in the period. At the same time, regional grievances resurfaced, as minorities demanded the restoration of their devolved regional governments. The build-up of these pressures meant that the floodgates of change burst open when General Franco died of old age in 1975.

3.3.2. *Nurturing a Capitalist Residential Industry*

The first measures of the Francoist state reveal an urgency to reform the property apparatus of the previous age, a mission that was pursued in its distinct paradoxical manner. In urban areas, the new state posed a frontal challenge to liberal social-property relations. Only nineteen days after the War, Franco decreed the creation of the *Instituto Nacional de Vivienda* (INV), a public agency equipped with wide powers over housing policy. The INV had the capacity to devise housing provision plans, purchase land, commission housing projects, and issue credit (Pedro, 2001:203-7). Through this institution, the state effectively nationalised the power to build housing, setting in motion the first ever mass public housing plans. Though the state did not nationalise the financial sector altogether – a demand of its Falangist base – it did establish a series of new public banks to outweigh the ‘bastard interests’ of the BHE (García, 2014). The state also forced private credit institutions to funnel finance into sectors deemed of priority, including the construction industry. In the countryside, the story was different. There, the regime sanctioned the land grabs carried out by the landowners during the War to pay them back for their support. That being said, the populist strain of the regime insisted on finding a solution for the rural poor, even if with much less vigour. Thus, a new agency was created for the purchase of land to settle small farmers (*Instituto Nacional de Colonización*), land that in any case had to be willingly sold by landowners who were never expropriated (Barciela, 1996).

In any case, in the 1940s, fascist attempts to reform the liberal property apparatus delivered catastrophic failures. The distribution of rural land failed to advance at the desired pace due to the unwillingness of the large landowners to voluntarily relinquish their estates (ibid.). Similarly, attempts to seize urban lands failed due to a lack of public economic means and an unwillingness of local governments to cooperate with the property register (Dávila, 1991:107). Moreover, economic depression and the lack of construction materials strangled the construction of public housing, a problem severely aggravated by the acceleration of the rural exodus after 1950.

The mechanization of agriculture and a state-sponsored expansion of irrigation translated into the extinction of traditional agriculture and its replacement by large-scale capitalist farming (Simpson, 2003:243). The rural poor began to evacuate the countryside at a breath-taking pace. Though the population movements of this period are hard to measure, Leal et al. (1975:187) estimate that out of the 4.8 million people working on the agrarian production in 1950, more than 3 million had abandoned the

sector by 1970. Indeed, by 1980, provinces like Teruel or Jaén had lost 40% of the population they had had in 1950 (See INE). As the *market-dependent* populace moved to the cities, the pressure they exerted upon the socially-available land eased in rural areas, where the property problem effectively ended before its resolution. Instead, the everyday pressures of market dependence were turned up to new heights in urban areas, where housing deficits became ever more acute.

It is at this point that the property apparatus, which I have previously assessed across city and country, bifurcates into two different trajectories that should be considered separately, as each addresses different problems with different means. In what remains of the chapter I shall thus focus on the residential apparatus, which in this period responded to the demographic pressure forming in urban space by nurturing a capitalist residential industry.

The failure to give birth to a mass public housing system during the 1940s encouraged the dictatorship to give up all future attempts to rebuild the commons. To address the mounting problem of urban housing in the 1950s, the government toned down its statist principles and performed an about-face. Now, the priority was to encourage private property developers to build as many homes as possible for profit, without regard for the quality of the dwellings or planning considerations (Naredo, 2010). The state began to offer generous ‘brick and mortar’ subsidies per housing unit, as well as cheap public finance and lax planning regulations. The central state began to go over the head of local governments on planning matters, overruling their land-use designations, purchasing or expropriating land from local landowners, only to hand it over to friendly property developers. The results repeatedly exceeded the planned targets and became an intrinsic part of the industrialisation policies of the 1960s and 70s, when the country experienced the fastest processes of urbanisation in its history – as well as the fastest in Europe at the time (Cardesín, 2016:289). The slums that had mushroomed in the previous age were quickly cleared and replaced by dwellings that stretched into poorly-connected industrial parks with deficient infrastructure (Naredo, 2010).

Another major development of this period was the fast spread of homeownership. Though these subsidies applied to both build-to-rent and build-to-sell operations, a paternalistic rent policy encouraged developers to focus on the latter: price hikes in the rental sector were completely frozen between 1946-1964, and after this date they were only allowed to adjust to inflation (Bertrán, 2002:30-32). At the same time, the state

mobilised a number of discourses to encourage developers to build homes for sale and to educate the population in the values of homeownership (Naredo, 2010). Owning one's home echoed the peasant values of a rapidly urbanising rural population, who had long cherished access to property as a form of family enterprise, independent living, and social reproduction and thus easily adapted to the idea of homeownership. Altogether, between 1950-1980 Spain witnessed a massive shift in home-tenure analogous to that of other southern European societies, though the Spanish was the most vertiginous (Castles & Ferrera, 1996). Within a few decades, homeownership had become a widespread cultural expectation in the everyday life of Spaniards.

The diffusion of homeownership created a dynamic property market and a permanent residential construction industry of increasingly capitalistic qualities. Before, urban landowners had had much in common with pre-modern rural landlords, as their business had more to do with passive forms of rent-extraction than with capitalist forms of competitive commodity production. It was only when public subsidies turned the production of home-property into a lucrative commodity that a swarm of new small construction firms began to build *en masse*. Initially, most of the housing built was subsidised, which required developers to adhere to strict price controls set by the state. Yet from the late 1960s, as a construction industry coalesced and land inputs became more costly, developers began to turn down the subsidies in order to build homes at prices that surpassed the caps set by the state (Pedro, 2001:212-227). An industry dedicated to the cost-effective production of housing with self-reinforcing pressures towards overproduction had been born. These pressures outweighed the hoarding instincts that the urban landowning class had held onto from the nineteenth century, as they encouraged landowners to sell their land-assets at rapidly inflating prices or to become property developers themselves to exploit these opportunities. The result was that, for the first time in modern Spanish history, residential output succeeded in keeping pace with urban demand.

It must be noted that this capitalist industry was not a spontaneous creation of the market itself. Rather, it was actively engineered by the state's residential apparatus and assisted by non-capitalist means. The nexus between the dictatorship and the construction industry was forged in the immediate aftermath of the War, when the state issued large public contracts for reconstruction tasks, civil engineering projects (e.g. dams for irrigation), and monuments to Franco's victory (Baquero, 2014; Vadillo, 2015). The dictatorship arranged 'leases' of prisoners – many of them political – to work on these labour-intensive projects under forced labour, a practice that continued

until the late 1960s. This arrangement guaranteed enormous profits for the developers who could stomach the practice, forging close links between them and state power; relationships that they would continue to tap into for vital political favour. For example, to claim the state's important subsidies one had to previously register as a 'real estate promoter' (*promotor*), a license that required one to be on good terms with the regime. Similar processes regulated building permits, social housing contracts, or land designations. Around these practices grew a number of medium-sized construction firms with strong ties to the establishment, via marriage or revolving doors. The overall result was a capitalist residential apparatus driven by a clientelist relationship between the state and private construction firms, for whom competitive accumulation was often an 'economic' affair as much as it was 'political'.

Yet this residential apparatus ran into trouble into the 1970s. A reinvigorated working-class movement demanded better urban conditions and greater access to social housing (i.e. publicly-built and rented at low prices) (Martínez, 2011). These social struggles posed a frontal challenge to the 'developmentalist' logic underpinning urbanisation in these years. In the midst of the 'stagflation' crisis of these years, the construction subsidies driving a good part of residential production were abolished in 1973, as economic planners became aware that these incentives had turned out to be a major source of inflation (Pedro, 2001:227). In turn, the skyrocketing interest rates of these years strangled the financial capacity of the real estate industry and prompted the demise of a large number of small firms. Half of all those newly unemployed lost their work in this sector. Starting in 1975, residential production entered a phase of sharp contraction, restarting the housing crisis that has been the norm throughout most of Spanish modern history.

3.4. The Post-Franco Era (1975-2010)

The Francoist dictatorship was succeeded by a federal democratic state, devolving the Francoist bureaucracy into a complex structure of democratically-elected local and regional governments. Whereas this was (and remains) the first sustained experiment with mass democracy in Spanish history, the new democratic state failed to uproot the oligarchic interests that had entrenched themselves in the Francoist period (particularly those of the construction industry). Previous patterns of clientelism adapted themselves to a new context in which political elites were immersed in processes of political accumulation through electoral competition, pressures that encouraged political parties to levy illicit campaign finance by systematically

exchanging political favour for bribes. These reorganised patterns of clientelism intensified in a context of urban entrepreneurialism, as the local and regional scales of the state used their devolved powers to compete with one another to attract private investment. On top of this, the capitalist apparatus of residential provision was rebooted with the techniques of financialisation (e.g. securitisation), which enabled a vast layer of homeowners to use the rising value of their homes to boost their disposable income via mortgage-backed debt. The alignment of all of the above turned the inflation of a real estate bubble into a political imperative, thrusting Spanish society toward the great crash of 2007.

3.4.1. The Pluralisation of Politics: Political Accumulation Intensifies

The democratic political system that came out of the dictatorship was a product of the balance of forces crystallised in the Constitution of 1978 (Heywood, 1995:37-82). This document re-established a constitutional monarchy and reached a federal settlement to accommodate Catalonia and the Basque Country, transferring wide-ranging powers to regional administrations. At the local level, the neighbourhood activism of the PCE secured the constitutional enshrinement of municipal democratic structures with considerable powers over planning decisions (Martínez, 2011). The combined result was the conversion of a highly centralised dictatorship into a federal apparatus in which state governance was devolved to a web of local and regional democracies. This pluralist principle extended to other state institutions like the Constitutional Court, which would have its magistrates appointed by democratically-elected representatives (Cardona, 2013). The logic of these measures was similar to the process of de-Nazification in Germany: the point was to uproot the old fascist bureaucracy and replace it with an army of public officials under democratic scrutiny.²⁶

After an unstable period of transition – which included a failed military coup d'état in 1981 – leadership over this complex political machine passed on to the state project of the social-democratic *Partido Socialista Obrero Español* (PSOE). This party, formed by moderate left-wing dissidents, successfully side-lined the more radical PCE that had led the resistance during the Franco years (González, 2004:121). Winning a series of landslide majorities between 1982-1993, PSOE reigned supreme on the basis of a 'catch-all' electoral strategy centred around three principles: (1) the consolidation of a

²⁶ Importantly, however, Spain did not hold its own version of the Nuremberg Trials: on the contrary, the threatening vigilance of the armed forces ensured a full amnesty for all human rights violations committed by the Francoist state.

pluralist democracy, (2) economic stabilisation, and (3) the prospect of European integration (ibid.). (1) Throughout this decade, PSOE deepened the democratisation of the state. Thus, the regime of devolution of Catalonia and the Basque Country was extended to every other region in the country, and a system of political representatives was created to overlook the executive boards of the savings banks system. It must be noted that the biggest victor of this process was PSOE itself, which at this time commanded an enormous amount of electoral power in every region of the country. (2) The process of economic stabilisation became synonymous with cutting loose a crisis-stricken manufacturing industry, a painful process of de-industrialisation that pitted the government against the main trade unions of the country (Marín, 2006).²⁷ Perhaps paradoxically, this arrived with a fiscal reform to boost a welfare state that had been severely underfunded by the dictatorship (measures implemented not without pressure from a series of general strikes). Over time, the old workers' movement became fragmented by the pressures of an increasingly 'post-industrial' division of labour, giving way to new forms of class identity with different electoral manifestations (e.g. young urban professionals, highly-educated precarians), and unsettling traditional patterns of social struggle. (3) The process of de-industrialisation was presented as the price to pay for European integration, which came to signify the international recognition of the Spanish transcendence of fascism. This cherished milestone materialised in 1986, followed by an intense cycle of growth that was mainly driven by European investment in Spanish real estate.

As the economy boomed in the second half of the 1980s, PSOE traded its old workerist *élan* for the ethic and aesthetic of neoliberal 'modernisation'. The party's leadership became openly hostile to 'failed' statist ideas and embarked in wide processes of privatisation and 'liberalisation'. In the meantime, leading figures of the party became involved with celebrities, began to display lavish suburban lifestyles, and to assume executive positions in Spain's largest companies upon their retirement from politics (Heywood, 2007:696-7). Perhaps unsurprisingly, this embrace of 'sleaze culture' (*cultura del pelotazo*) resulted in the eruption of all sorts of financial scandals by the 1990s. Highly-ranked government officials became involved in embezzlement affairs, and the party itself was rocked by evidence that they had been running networks of shell companies to launder the stream of bribe monies that were regularly entering its

²⁷ The communist *Comisiones Obreras* (CCOO) and the social-democratic *Unión General de Trabajadores* (UGT) had become institutionalised as the negotiating representatives of the workers' movement in 1979.

coffers.²⁸ As became more evident later, pre-democratic patterns of clientelism were not uprooted by the pluralisation of the state. Rather, elite processes of political accumulation merely adapted themselves to the structures of the new democracy, where executive power over the allocation of public resources was decentralised to a myriad of democratically-elected nodes, and to financial needs of an elective political class, which needed campaign finance to reproduce their access to state power.

These revelations were coupled with the arrival of economic troubles after 1992. Unemployment soared after the crisis of the European Exchange Rate mechanism disturbed the capital flows nourishing Spain's economic growth in previous years. In the midst of this instability, the government had the difficult task of implementing the measures required to ensure Spain's entry into a Eurozone in construction (i.e. the Maastricht criteria). PSOE lost its majority in 1993, resuming horizontal struggles within the political class in the parliamentary realm. To stay in power, PSOE required the support of the Catalan liberals of *Convergència i Unió* (CiU), who demanded that the deficit caps stipulated by the Maastricht Treaty should be financed with social spending cuts rather than by increasing taxation (Navarro et al., 2012:108). By the mid-1990s, PSOE's 'catch-all' electoral base was bleeding from all sides, to the point that an opposition formed by Franco's amnestied heirs began to appear as a decent alternative. After more than a decade of electoral defeats and a series of marketing efforts to blur their link to the dictatorship, the right had regrouped around what became the conservative *Partido Popular* (PP), a collection of late Francoist elites and liberal-conservative dissidents (Moya et al., 2014). Their rise to power finally arrived in 1996, driven by large electoral gains amongst urban professionals, the youth, and the unemployed (González, 2004).

The new government swiftly adopted the standard of neoliberal modernisation from their predecessors. PP engaged in aggressive measures to meet the terms of the Maastricht criteria and to ensure Spain's entry into a nascent Eurozone. To cut back the public deficit, they engaged in a massive of privatisation of state assets between 1997-2001 (Tudela, 2015). Once again, Spain's entry into the Eurozone was perceived as a milestone in the country's modernisation, allowing PP to revalidate their electoral victory in 2000, this time with a landslide majority. Feeling secure thanks to its firm parliamentary majority, PP took a sharp turn right and recovered their reputation as

²⁸ And yet, perhaps the biggest scandal was not financial at all, but the government's involvement in state terrorism operations – the 'dirty war' against Basque separatist terrorism – for which two PSOE ministers went to prison.

the ‘nasty party’. After a failed aggressive labour reform; a dramatic cutback in social spending by half; and an imperial venture with American neoconservatives in Iraq, PP lost control of government in 2004 with a dramatic loss of votes among professionals and the youth (González, 2004). A rejuvenated PSOE administration took their place, rolling out a series of highly publicised measures centred on civil rights issues and symbolic gestures (*talante*), e.g. improvement of abortion rights, same-sex marriage, the dismantlement of fascist monuments. Yet the ‘culture wars’ of these years concealed an underlying neoliberal consensus: ‘lowering taxes is left-wing too [...] it seems incredible that our intellectual positions could have been so narrow-minded in the past’ (President Zapatero quoted in *El País*, 2003).

The basis of this neoliberal consensus was an economic model centred around processes of real estate speculation, nourished by cheap capital imports facilitated by the Euro and catered by a highly precarious workforce in the construction and hospitality industries (von Zeschau, 2011). Despite warnings of an imminent economic meltdown as early as 2004, both parties were eager to ride the wave of the real estate bubble until the bitter end, and when everything came crashing down between 2007-9, they descended into mutual accusations.

The unravelling of the economy of these years came with a constant stream of corruption scandals, the majority radiating out of public decisions around the real estate market (Jiménez & Villoria, 2012; Romero et al., 2012). There is now widespread evidence that wherever a party held public power, it took bribes at every devolved scale of the state – local, provincial, and regional – only to then funnel these funds into their coffers through opaque foundations or shell companies. The primary function of these bribe networks was to provide a boost to their electoral war chests. In other words, bribery acted as a form of electoral ‘doping’ that boosted the capacity of political parties to engage in political accumulation. In the cases of PP and the Catalan CiU, these criminal efforts were coordinated by a hierarchy fused into their national financial structures. Despite a myriad of local and regional scandals along these lines, a criminal structure on a national scale is yet to be discovered within PSOE, though it is extremely likely that the scandals that rocked the party in the 1990s were of an identical nature (Heywood, 2007).

The neoliberal consensus of this period shows great parallels with the liberal consensus orchestrated by the *turnismo* system of the previous century, a state project now relaunched around the patterns of real estate clientelism engendered by Francoism. As

in the late nineteenth century, a period of popular upheavals was stabilised by the creation of a two-party system organised around the collusion between oligarchic interests and an elected political class. In both examples, *clientelism constitutes a form of hierarchical class struggle*, as it serves to exclude the populace from state power, to narrow the economic agenda and to obscure how public resources are allocated. The difference is that in recent decades, clientelism has not been mobilised to suspend the horizontal competition between a (neo-)liberal political class in order to facilitate their peaceful rotation in power. Instead, during the post-Franco period clientelist networks have been mobilised as a means to intensify *the horizontal class struggles between the political classes* by boosting the competitiveness of each party's electoral machine.

3.4.2. *The Financialisation of the Capitalist Residential Apparatus*

With the year of Franco's death (1975), Spanish residential production entered a 25-year-long phase of decline. The patterns of land hoarding that had been the norm until only one generation before resurfaced. With the disappearance of commercial opportunities in the housing sector, urban landowners preferred to exploit the potential compensations of a public expropriation instead of investing in property development or selling their land to developers. Housing deficits returned to the cities of Spain despite an end of the migratory pressures of the rural exodus, which ended around 1980 (Pedro, 2001:224-2231). Indeed, the everyday problem of *a market-dependent population* pressing against the socially-available land did not cease, it merely shifted its form. Moreover, in an increasingly post-industrial economy, high demand for office space drove up land and house prices in city centres, pressures that then rippled outward as processes of gentrification began to push the urban poor towards the outskirts.

At first, and in the context of surging working-class unrest, the state opted for challenging the logic of liberal social-property relations. In 1976, the first post-Francoist government embarked on a mass public housing project in order to converge with the housing systems of the European north (Fernández, 2004:148). However, just as in the 1940s, this was complicated by the poor financial situation of the state. The project was abandoned one year later and attempts to rebuild the housing commons would never be renewed again. Once again, the failure to find an alternative to liberal social-property relations resulted in an invigorated faith in the need to work around their problems rather than to mount a frontal challenge to their logic. Like in the nineteenth century, this was achieved through everyday financial incentives. From the

late 1970s tax breaks were offered to home-buyers, and private-public partnerships were established with credit institutions to finance developers who agreed to build price-controlled dwellings (López & Rodríguez, 2010:272-9). These measures were dramatically expanded in 1985, when the rent regulations of the Francoist period were lifted (e.g. rent caps, minimum duration of contracts) and the tax breaks to home purchase broadened so that they could apply to an unlimited number of properties purchased.

This 'liberalisation' of the residential apparatus failed to provide lasting solutions and created new sets of problems. Rent conditions became quickly precarised as tenants became subject to short-term rolling contracts enabling a quick surge in rent prices (Fernández, 2004:153-160). The tax breaks to home purchase made property a remarkable storage of value for investors, who could now dodge taxes while buying assets of escalating value. These processes only intensified when Spain joined the European Economic Community in 1986, as this buoyant property market functioned like a magnet for most foreign investment. Even though residential production picked up somewhat, this was mostly driven by processes of suburbanisation for the wealthy. The property market was booming, but the housing deficit was integral to the boom. Real estate investment was being driven by rises in property prices, which in turn were being driven by an underlying scarcity of homes. The paradox was that, had construction outpaced the deficit, the whole edifice would have collapsed onto itself. As it would become clear later, Spain had just inflated the first housing bubble in continental Europe (López & Rodríguez, 2011b).

These developments occurred as the state devolved broad competencies over urban affairs to its local and regional scales. The local democracies secured by the neighbourhood movement in the wake of the social struggles of the 1970s equipped municipal executives with extensive powers over the allocation of urban resources. Municipalities could now to tax land away from landowners, or reach agreements with developers to grant them social housing contracts if in exchange they costed the regeneration of degraded areas (Romero et al., 2015). A grassroots victory against previous excesses of the central state, this strong local power was at first put to use to contain the excesses of property developers, resulting in carefully crafted urban plans throughout the 1980s. Regional parliaments – 17 of them by the mid-1980s – gained broad legislative powers over the built environments, most prominently, the approval of their own land-use planning laws (Coq-Huelva, 2013). The local and regional scales of the state also gained the power to appoint executives to the boards of the savings

banks within their territories, which were placed under the oversight of regional administrations. The savings banks had come out of the Franco period with heavy public involvement, though their operations remained locally-bound. Over the course of the 1980s, however, these institutions attained full operational equality with the commercial banks and were allowed to operate across Spanish territory (Santacruz & Donoso, 2011:12-15). Ultimately, the decentralisation of the nodes of decision-making power over the built environment failed to provide a democratic counterweight to the clientelist dynamics of Franco's authoritarian urbanism. As the working-class activism of the 1970s fizzled out over time, the municipal democracies that it had engendered experienced a process of degeneration (De Terán, 1993:347). The checks and balances within local bureaucracies gradually disappeared, leaving only strong municipal executives with unprecedented capacities to reach opaque deals with property developers. This happened with the complacency of regional governments, who sometimes neglected their land-use planning and oversight functions (Coq-Huelva, 2013). Indeed, the savings banks gradually became the financial wings of a new form of intra-elite social struggle – instruments of political accumulation in the hands of regional elites competing with one another to attract flows of private investment into the built environment.

In the meantime, the capitalist construction industry that had grown in the shade of the Francoist regime manoeuvred to poise itself in the new conjuncture, both 'economically' and 'politically'. As the crisis in residential production deepened, the vast layer of small construction firms that had emerged after 1960s, largely specialising in residential construction, were obliterated (Galindo, 2003). The mid-size firms of the sector opted for weathering the crisis of the sector by merging into large conglomerates with a diversified range of operations. These conglomerates began to turn to urban infrastructural tasks (e.g. street repair, cleaning) in order to offset their losses. Needless to say, these are business segments heavily reliant upon public contracts from local councils and regional governments. To secure access to the public allocation of vital resources, these construction conglomerates resorted to means of influence peddling to reproduce their power. By the early 1990s, the practice of influence peddling was extensive in all scales of the new state administration, with different bribe rates reported across different regional governments, usually around 3% of the cost of the briber's profit (Missé, 1991, 1994). The factoring in of political corruption as another input cost in the construction business was not new. For the largest construction firms, this simply meant a continuation of older practices of political accumulation in a new electoral context.

Into the 1990s, the dearth of affordable housing was a major political issue, to which a neoliberal political consensus responded with further 'liberalisation', this time of the land market. After much struggle between the central and regional scales of the state over the course of the 1990s, the Land Law of 1997-8 introduced the first series of reforms that radically altered the mechanisms of land valuation passed down since the nineteenth century. This was an instance of horizontal struggle between accumulating classes. The Law attacked the property rights of the landowners by allowing local councils to privatise their planning functions to property developers (Gaja, 2005; Burriel, 2008). This meant that specially-licenced developers, should their planned developments be approved by the local council, could cost and enforce the necessary expropriations themselves. To facilitate this process, the law also changed the way land valuations were carried out. Now, to compensate landowners for their assets, the potential value of their losses would be benchmarked against average house prices. The idea was that the new legal framework would make home construction flourish, under the assumption that an increase in residential supply would bring land prices down (Matesanz, 2009).

The outcome was just the opposite: house prices skyrocketed and formed a new housing bubble. A burst of speculative demand kicked in around that time, with a combination of investors fleeing the low yields of the stock market and money launderers buying property in cash to facilitate the conversion of their old *peseta* reserves into euros (Burriel, 2008). The opportunities for investment in house-price increases were such that they outpaced the rising cost of land inputs. In fact, the benchmarking of land against average house prices pushed asset-price increases in an upward spiral, despite a massive increase in residential production. The process was magnified by the entry of low-interest capital from Europe, cheap finance that was recklessly funnelled into the real estate market by the savings banks.

A dual process of political accumulation became immanent to the logic of the bubble. On the one hand, property developers continued to purchase their access to key public decisions to ensure their profits: e.g. tailored land designations, licenses, or project approvals, preferential savings bank credit. On the other hand, different factions of the political class engaged in these clientelist transactions so that they could please their electorates by making their regions attractive to investment, but also to extract a section of the profits they afforded their clients. These two processes were mutually reinforcing: the yields of clientelism went on to boost the campaign finance of the

corrupt parties, boosting their capacity to reproduce their access to state power, from where they could return the favour to their clients, and so on. Without taking this into account, these patterns of horizontal competition, the dynamics of residential overproduction of the 2000s, as well as the extravagant expenditure in unnecessary infrastructure (e.g. rail lines, airports, etc.), would be unintelligible. At the same time, this clientelist nexus between the political and developer classes should be seen as a form of class struggle against a populace that had to withstand rising housing costs.

Paradoxically, the boom in house prices met the acquiescence of an electorate that only a few years earlier saw the affordability of housing as a major problem. This acquiescence was the result of the formation a new class of 'semi-proletarian' homeowners at the everyday level. Wage-earners began to depend on the booming value of their property assets to raise debt to cover their daily expenses. The Euro brought an injection of capital imports from northern Europe, which combined with record-low interest rates and new techniques of mortgage-backed finance. It also boosted the spread of everyday credit, which for many became an alternative to stagnating real wages (López & Rodríguez, 2010:236-246). This tied the purchasing power of many households to the continued impetus of housing speculation, an association that was easily conveyed by the comparison to the boom of the 1960s. Since residential production skyrocketed to an unprecedented rate, it appeared as if a second 'economic miracle' had arrived. The everyday acquiescence of the homeownership class served to reinforce this regime of accumulation because to please this electorate, local governments began to use their extensive powers to freeze property taxes in order to raise cash through taxes on property development and urban land transactions (Jiménez, 2009:263-7).

3.5. Conclusion

Thus, broad swathes of Spanish society marched in lockstep into the abyss of the global financial crisis. The coherence of this social formation was a remarkable achievement, the culmination of a long interplay between two historical processes that sought to address the problem of a market-dependent population pressing against the socially-available land: (1) *The development of an apparatus to pacify intense conflicts over liberal social property relations*. At first, this took the form of a property apparatus, an ensemble of mostly financial measures seeking to provide fixes to grievances occasioned by a limited access to farmland in the countryside and housing in the cities. Into the twentieth century, as the rural population relocated to the cities, the property

apparatus became a specifically residential apparatus built around a capitalist industry oriented towards build-to-sell operations. After the crisis of the 1970s, this capitalist residential apparatus was relaunched in a financialised form, to facilitate the purchase and development of property. (2) *The evolution of patterns of political accumulation mediating the bond between the political and propertied classes.* In the late nineteenth century, this nexus was formalised through the *turnismo* system of rigged elections, by which politicians traded political favours to landowners in exchange for the manipulation of local electoral procedures. Under Franco, this process mutated to revolve around the exchange clientelist favours between bureaucratic officials and real estate developers. During the liberal democracy of the post-Franco era, patterns of political accumulation became dual. On the one hand, real estate developers continued to purchase political favour to compete with one another, while on the other, political parties accepted their bribes to boost their electoral finance, and also to compete with one another. Because parties usually exacted a small percentage of the profits they ensured for their clients, this encouraged a process of overproduction in the built environment in the 2000s.

This focus on domestic factors does not mean that global macroeconomic pressures did not play a role. Indeed, had it not been for cheap European finance, it is unlikely that the Spanish bubble could have acquired the magnitude that it did. Rather, the point here is that the influx of European finance cannot explain the inflation of the bubble, and certainly not Spain's unique pattern of residential overproduction. Indeed, my method of analysis has cast light on two crucial features of the Spanish experience that are grossly neglected in the existing literature: the political pressures derived from sustained housing deficits, and the role of political corruption as a driving force behind the bubble. The result is a critical narrative of the Spanish crash that is centred around 'the political' – i.e. power conflicts over social-property relations – rather than based on the causal primacy of macro-structural factors or objective economic forces.

Overall, this chapter exerts a dual function within the thesis. On the one hand, it is the conclusion to the theoretical inquiry opened in the previous two chapters, as it advances a historically specific explanation for the peculiar form of the Spanish pathway to the crash that revolves around political factors. In doing so, the chapter addresses directly the underlying research question of the thesis: *why did the Spanish path into the crisis manifest as two seemingly contradictory processes – as a house-price bubble and as a wave of residential overproduction?* On the other hand, this chapter also acts as an introduction to the next part of the thesis, since the narrative

sketched here will be fleshed out in the coming four. As such, the chapter should be seen as a historical background to themes that will be dissected in subsequent ones: urban planning, housing policy, finance, and political corruption.

Part Two



‘The moment we were to stop building, everything would collapse’

El Roto (2011 [2005])

4. The Origins of Residential Overproduction: A Genealogy of Urbanism

4.0. Introduction

In 2007, a report by the European parliament noted:

What is spreading along the Spanish coastal region of the Mediterranean [...] is too often the spoliation of community and culture, the concretisation of the coastline, the destruction of the fragile flora and fauna and the massive enrichment of a small minority at the expense of the majority. Hillsides are invaded by a cancer of identikit dwellings not because they are needed but because they provide a profit for the urbaniser and the builder, for the architect and the lawyer (Libick & Cashman, 2007:2).

The report was referring to the effects of the now infamous ‘build anywhere law’ of 1997-8, the start of a decade of booming house-prices and residential overproduction. As I have shown in previous chapters, the combination of these two processes raises the question of how house prices could sustain a decade of skyrocketing increases despite an increase in residential supply that dwarfed even the rates of the largest economies of the Eurozone. However, as chapter 1 has argued, equally puzzling is how uncomfortably this feature sits in critical narratives of the Spanish crash. On the one hand, the core-periphery narrative, in presenting the Spanish crisis as a mere appendage of the broader crisis of the Eurozone’s periphery, hollows out the Spanish property boom from any history of its own – to the point that it misses how the piece of legislation that jumpstarted the bubble preceded the formation of the Eurozone itself. On the other hand, the spatial fix narrative, in framing processes of residential overproduction as a generic reflex of industrial restructuring, neglects how the Spanish experience as I will demonstrate, was born out of the peculiarities of its own urbanism.

The purpose of this chapter is to historicise the wave of residential overproduction that afflicted Spain during the 2000s, arguing that it should be seen as *the culmination of a slow institutional maturation*. While the ‘build-anywhere law’ is widely acknowledged as the starting point of this anomalous construction frenzy, what is often overlooked is that this piece of legislation was only the latest response to age-old patterns of land hoarding – speculative dynamics that have historically strangled residential production and resulted in continuous housing shortages. Attempts to

combat these pressures have a long history that harks back to the origins of the modern city in the nineteenth century, when Spain developed a legal matrix for urban planning practices without parallel in Europe.

In making this case, I hone in on a central claim of the thesis' narrative: that the Spanish crash is not reducible to a generic structural formula, but was, rather, the contingent outcome of a historically specific experience. This claim is showcased by looking at the ways in which contemporary urban planning practices are the result of a lineage of political efforts to give shape to the housing system that sedimented into lasting institutional outcomes – what I have previously termed '*layered struggles*'. To capture this historicity, this chapter will deploy the historical institutionalist notion of '*layering*' (Pierson & Skocpol, 2002:708; Thelen & Streeck, 2005:22). As addressed in chapter 2, layering denotes the processes by which institutions build cumulatively over time, cementing over one another and making the replacement of old practices increasingly costly, both economically and politically. This concept represents a form of *path-dependence*, but it does not preclude change nor determine the direction of change. Indeed, the amendment or revision of previous institutions requires an active sponsorship by political actors and, more often than not, the mediation of political conflict. To represent these political dynamics, this chapter will historicise the evolution of urban planning institutions alongside the strategic positioning of the different actors that promoted them.

Although the process of layering is continuous, the chapter has abstracted three different 'layers' in the development of urbanism in Spain. This is a purely conceptual distinction, one that carries the purpose of identifying and periodising which phases of institutional change were most conducive towards the property boom and bust of the 2000s. The chapter is structured in accordance with these three layers. The first section (4.1) traces the origins of modern urban planning to the establishment of the *ensanche*, a distinct urban planning system that came to incentivise urban landholders to withhold their lands from construction. The second section (4.2) traces the responses to the problems of the previous system developed in the mid-twentieth century. These efforts set in motion a capitalist industry of residential production capable of countervailing the hoarding tendencies of the urban landowning class. The third section (4.3) discusses the responses to the crisis of residential capitalism in the 1970s, creating the conditions for a 25-year-long housing crisis. The fourth section (4.4) traces the advent of the 'build-anywhere law' of 1997-8 in response to housing shortages. It dissects how its radical innovation in land valuation and urban planning

procedures triggered a massive wave of residential overproduction that, unexpectedly, was accompanied by a house-price bubble.

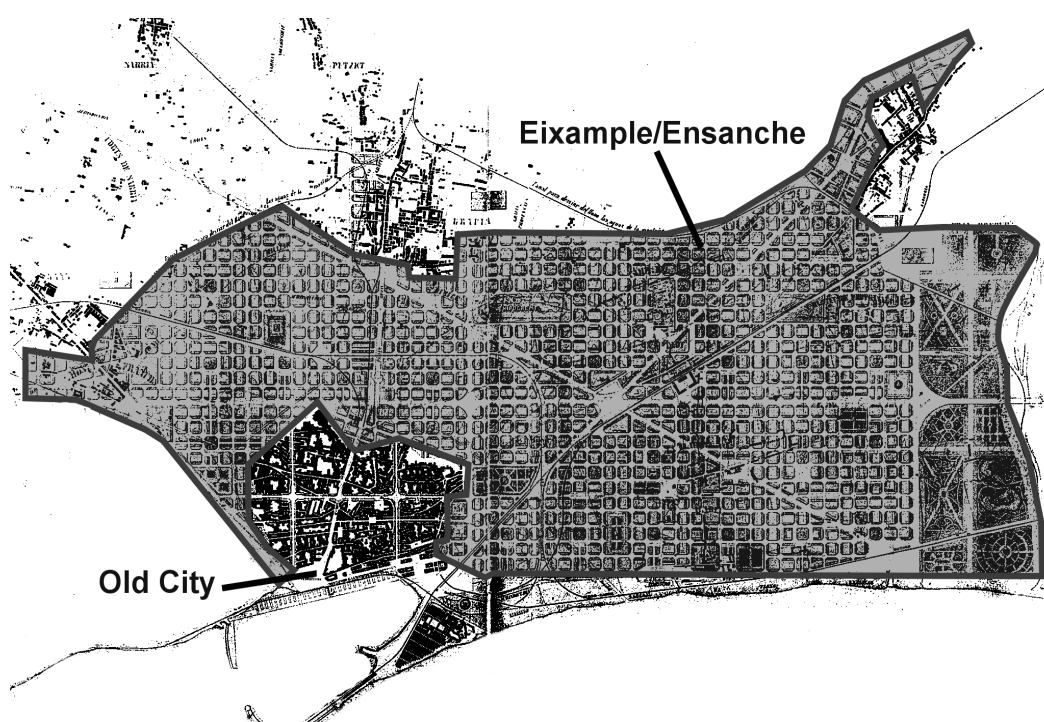
4.1. First Layer: The *Ensanche* and its Legacy

A distinct response to the demographic pressures of a nascent urban society, the technique of the *ensanche* (i.e. ‘enlargement’ or ‘extension’) laid the foundations for modern urban development in Spain. This development had long-lasting *path-dependent* implications. The main legacy of the *ensanche* would be the primacy of urban landowners in the process of urbanisation – meaning that the state had little power if they refused to build according to the plan – and a highly peculiar system of land valuations. The latter allowed the state to price greenfield sites *as if they had already been developed*, making the expropriation of urban land exceedingly expensive. The institutionalisation of this performative form of valuation equipped the landowning class with remarkable legal powers to speculate with urban land by hoarding it, capacities regularly used at the expense of the housing needs of the majority.

The *ensanche* system constitutes the first expression of the Spanish residential apparatus, as it was designed to ensure the provision of housing in the context of the spatial pressures over urban areas during the context of the nineteenth century. This first layer of modern planning practices was laid against an uneven terrain of pre-modern institutions. The *ensanche* was the result of unsuccessful attempts in the mid-nineteenth century to build Parisian-style Haussmann boulevards by knocking down old medieval quarters (Angosto, 1998:35-37). These attempts were fought in court by different local and regional corporations of medieval origin (e.g. *policía*), bodies which succeeded in reasserting their traditional jurisdiction over matters of sanitation and public order within city walls (see Nieto & Rupíerez, 1998:361). The entrenchment of these bodies preserved the integrity of the old labyrinthine city centres and pushed the new planning techniques outward. As a result, unlike most European countries in this period, the new broad and geometrical neighbourhoods would have to be built on newly developed land by means of urban ‘enlargements’ beyond old city walls (Fig.6). This system was first tested in the planned expansions of Madrid and Barcelona in 1860 and was standardised for application elsewhere in 1864. From the 1870s onward, many localities approved *ensanche* plans of their own, in pace with the advance of

industrialisation in the northern and eastern seaboard of the country.²⁹ Two pieces of legislation in 1876 and 1879 extended the state's jurisdiction to urban centres, effectively disempowering the old municipal authorities whose resistance had made the *ensanche* necessary to begin with. Yet, by then it was too late: the institutional mechanisms of the *ensanche* had already settled in and had begun to spread across the country. Due to this sequence of development, the system of the *ensanche* would remain established for decades to come.

FIG.6. THE *ENSANCHE* OF BARCELONA: THE CERDÀ PLAN OF 1859



Source: Base map extracted from Oficina Coordinació Any Cerdà

The crystallisation of the *ensanche* was shaped by the recent advent of liberal social-property relations. In the age of absolutism, when urban planning was driven more by aesthetic and military considerations than demographic pressures, Kings could requisition lands to build palaces and fortresses without legal constraint and without need to compensate landowners (Angosto, 1998:35). This changed with the decisive political victory of liberal forces in 1836-37, who succeeded in abolishing the legal form of the seigneuries (*señoríos*), aristocratic properties conferring juridical powers and

²⁹ The decrees of *ensanche* of every different locality can be found through a simple word search of their usual opening lines ('*Real decreto aprobando el proyecto de ensanche*' or '*Real decreto aprobatorio del proyecto de ensanche*') in the digital archives of the official bulletin of the Spanish state (BOE). See <https://www.boe.es/buscar/gazeta.php>.

fiscal exemptions on their owners. Feudal lords were expropriated and their properties stripped of their privileges and auctioned off to the highest bidder as ‘individual property’ (*propiedad particular*) (Shubert, 1997:57-60). The resulting transformation of private property into the universal form of ownership came attached to a regulation of its boundaries and to a restriction in the instances in which the state could seize private property in the name of the ‘public interest’. One of such instances was urban reform. From their inception, the *ensanches* were equipped with the legal instruments used to enforce the liberal revolution. The process of *ensanche* included the valuation and expropriation of properties in the way of planned new neighbourhoods, compensation for the original owners, and the public auction of the expropriated site to interested property developers.³⁰

The problem was that at the time of the approval of the first *ensanches*, the state was deep in a fiscal crisis. This was a time of failed colonial invasions (Vietnam, 1858-1862; Chile, 1864-1866), banking meltdowns (1866-1869), and civil war (Third Carlist War 1872-1876) (Sudrià, 2014:480). The financial strain of this period ruled out the mass expropriation of land around city centres. To circumvent these expenses, the state tried to displace the costs of urbanisation onto the landowners whose properties fell within the bounds of a planned *ensanche*, providing them with incentives to build according to the plan. A new system of land valuations was introduced, one that valued the greenfield sites in the space of the *ensanche as if they had already been developed*: i.e. as if all the necessary infrastructures (i.e. roads, etc.) and residential buildings had already been completed. Thus, in anticipation of future values, even the most barren patch of rural land would see its price soar as soon as it fell within the bounds of a planned *ensanche*. These imaginary cities were meant to allow landowners to take building loans by using the artificially inflated value of their properties as collateral (Fernández, 2005, 2009; Matesanz, 2009).

Not only did this system make the procedures of expropriation much more costly as landowners had to be compensated for the loss of urban property that did not yet exist. It also failed in its objective to incentivise private urban development, not least because an industry specialised in residential construction was lacking. At the time, the typical builders were middle-class professionals who, seeking a steady source of rents to complement their incomes, would occasionally purchase a patch of land in the *ensanche* and build a block of flats for lease (Tafunell, 1992). For these occasional

³⁰ These mechanisms are detailed in articles 9 and 10 of the General Law of Ensanche, cited in the bibliography as *Ley de 30 Junio de 1864, de ensanche* (1864).

developers, the new system of land valuations simply made the business of land hoarding more lucrative. The threat of expropriation became a speculative opportunity, as urban landowners could rest assured that they would be exorbitantly compensated and that their profits would be higher the less they had invested in developing their greenfield sites. Thus, it became common for *ensanche* landowners to simply withhold their lands from construction and wait for the scarcity of homes to drive up the price of their lands. At the same time, investors began to purchase lands adjacent to urban centres with the expectation that a change in urban plans would make their lands fit for development, a change in classification automatically inflating the value of their property (Marcinkoski, 2016:68-72). Indeed, in the context of the corrupt local politics of the *turnismo* period (1875-1920, see previous chapter), a timely tip-off from the local government could result in enormous returns. Constrained by these hoarding dynamics, cities grew slowly and the planned *ensanches* took decades to densify.

These patterns of land speculation worsened with a ‘deepening’ of the notion of private property in the late nineteenth century. The original rationale of private property was to secure private interests from arbitrary exercises of state power to ultimately subordinate them to the general interest. This was still patent in the early stages of the *ensanche*, when the 1861 Posada Herrera Bill – a piece of legislation that was never passed – proposed the expropriation of hoarding landowners who refused to build according to the plan (Linares, 1991:105; Orduña, 2001). However, by the end of the century, this rationale had given way to a much more radical understanding of private ownership, an ‘absolute’ form of private property detached from any social obligation. This notion was enshrined in the Civil Code of 1889 which represented private property as not only desirable but *natural*, thus reducing any breach of its sanctity to an exceptional aberration (Angosto, 1998:35). Spain here diverged from the spirit of the times, as by then growing working-class unrest was already forcing many European countries to adopt less radical conceptions of property.

Such ‘hardening’ of liberal social-property relations would henceforth lock the categories of ‘public interest’ and ‘private property’ into a perpetual juridical tension that lives on until this day. It has had a lasting impact on Spanish building law (*ius aedificandi*), which has shifted even more power over the urbanisation process to the landowners. In short, the state could plan, regulate, and delimit the space of the *ensanches*, but the actual process of urban development – the construction of the necessary infrastructure and residences – had to be initiated by the owners of the

greenfield sites. The state was further disarmed of means to enforce the planned urban expansions and instead became completely dependent on the good will of the (urban) landowning class. If the owners of the land plots refused to build according to the urban plan, then the urban process was effectively brought to a halt. Thus, with the advance of industrialisation, overcrowded cities were made hostage to the whims of the urban landowning class. As the middle classes slowly moved to the bright and spacious *ensanches* over the course of the next few decades, the working classes crammed into downtown attic rooms in insalubrious conditions, as well as into irregular developments in the outskirts (Pedro, 2001:187). Indeed, vast slum towns mushroomed around every industrial centre. As early as the 1880s, irregular developments proliferated from Barakaldo (Bilbao) to Russafa (Valencia). During its first experience with industrialisation in the 1920s, Madrid saw the sudden spawning of large shantytowns to its south; these are now the districts of Carabanchel and Vallecas. Vallecas, a village of only 2,000 in 1870, saw its population swell to 49,000 by 1930 (Valenzuela, 1978:41). In other words, the residential apparatus inaugurated with the *ensanche* system was born with severe institutional weaknesses that came to negate its very purpose.

These patterns of land hoarding, constraining residential production, would outlive the *ensanche* itself. From the 1920s, with the advent of rationalist planning ideas, the *ensanche* system was gradually superseded by a hierarchy of metropolitan and regional planning agencies that replaced it with modern zoning practices (De Terán, 1972; Valenzuela, 1978).³¹ However, the sophistication of planning instruments did not address the central obstruction to the urban process: the institutionalised power of an urban landowning class. As social unrest gathered strength in the interwar period, it became evident that, given the rigid conception of property in Spain, the only way to enforce urban planning on the landowning class was for the state to literally assume the property ownership of the necessary lands. Following the experiences of other European countries, the idea of combatting land hoarding via a mass purchase of urban land resurfaced from the 1920s (e.g. Joaquín Chapaprieta Bill of 1923). However, the enactment of concrete measures in this direction would have to wait until after the Spanish Civil War.

³¹ The practice of 'zoning' divided the city into different sectors with specific functions. This conceptual tool became an important planning mechanism to relocate industry away from city centres (de Terán, 1972). For a comprehensive account of the evolution of supra-local planning bodies after the *ensanche* see Valenzuela (1978). For a more detailed account of how this process unfolded in Madrid, see Neuman (2010). For Barcelona, see de Terán (1977).

In 1945, the Francoist dictatorship created a land registry and equipped municipalities with legal capacities to expropriate landowners who did not comply with the urban plan.³² However, the implementation of these measures unfolded slowly, as a lack of financial resources and an unwillingness of local authorities prevented the implementation of this law at an everyday level (Dávila, 1991:105). To address the limitations of this measure, the dictatorship passed the first national planning law in Spain history: the Land Law of 1956.³³ The Law's preamble made the problem of land hoarding explicit:

Lands are being withheld by landowners who neither urbanise, nor build homes, nor are willing to sell the lands for urban development and residential construction at justly estimated prices [...] The purpose is often to seek speculative prices rather than real ones. In this process, they are making the usage of landed property impossible.

To address these issues – again, a legacy of the *ensanche* – the Law replaced the old system of valuations with a rigid system of price controls designed to cap abusive price hikes in the event of a public expropriation (Marcinkoski, 2016:65; Matesanz, 2009). Yet, the 1956 Law failed to challenge the problems handed down by the nineteenth century. It appears that the complexity of the new valuation system was such that it was never implemented in practice (Matesanz, 2009). Instead, it was left to *drift* away: on the ground, the obscure land valuation practices of the *ensanche* simply remained the everyday norm for decades to come. This way, landowners continued hoarding, reassured that, in the case of expropriation, they would be compensated for the full potential of their plots.

However, the makers of the 1956 law contemplated a procedure of urban planning enforcement that proved to be more viable in the long-run: cooperation. Going down this route, local governments would take the lead in the urban process by assuming the costs of infrastructure (i.e. roads, pavements, streetlights, etc.). In exchange, the landowners agreed to cost the development of housing on the condition that they would not be taxed on their profits (Marcinkoski, 2016:65). This sort of settlement

³² These measures were the result of two pieces of legislation, the Law of Foundations for Local Regimes (*Ley de bases de regimen local*), and the Law of Greenfield Sites (*Ley de solares*), both passed in 1945 (Matesanz, 2009). These followed the precedent of the failed Joaquín Chapaprieta Bill of 1923, which had already proposed the purchase of urban land to build public housing for the working classes (Dávila, 1991:106).

³³ For the Land Law of 1956, see *Ley de 12 de mayo de 1956 sobre régimen del suelo y ordenación urbana* (1956), BOE-A-1956-7013.

would remain the most common form of urban development for the remainder of the twentieth century. And thus, with the nineteenth-century legal powers of the urban landowning class almost intact, Spain entered the most intense phase of urbanisation in its history.

4.2. Second Layer: The Developmental City

The second layer of urban planning institutions was laid down to mend the legacy of the *ensanche* system and invigorate the state's residential apparatus. After some trial and error, the Francoist dictatorship opted for nourishing a private residential construction industry through generous subsidies. Encouraging property developers to build as much as possible, without regard for the quality of the dwellings, these efforts were rolled out in an authoritarian fashion and without much regard for any planning considerations. In order to ensure that housing output kept pace with industrial growth, the state began to freely issue licenses to property developers, overriding local urban plans and letting cities sprawl in oil-spill shapes.

It would be under the auspices of the Francoist regime, and in an explicit attempt to curb social unrest, that the state began to assume greater competences over housing provision. Franco inaugurated his dictatorship with the creation of the *Instituto Nacional de Vivienda* in 1939 ('National Housing Institute', henceforth INV), a state agency of Mussolinian inspiration that would remain the main instrument of housing policy until the end of the dictatorship. Its competences included planning of social housing provision; dictating national construction targets; approving and inspecting building projects; and providing credit and construction materials (Dávila, 1991:104-5). In the coming decade, this institution would pioneer the first attempts to create a large-scale social housing system in the country (see chapter 5).³⁴

And yet, as much as the creation of the INV invigorated the legal capacities of the Spanish residential apparatus, attempts to solve the housing problem with public residential development were thwarted in the 1940s and 50s. At first, the main setback was the deep economic depression into which the country sank in the aftermath of the Civil War. Not only was the country devastated, but, after the defeat of Nazism, it was also isolated on the world stage (Francoist Spain was denied Marshall aid by the US).

³⁴ As mentioned in the previous chapter, there were some precedents. The 'casas baratas' (cheap housing) legislation of 1908, 1911, and 1921 pioneered the introduction of social housing. From 1924, local governments began issuing bonds to initiate public residential projects (Pedro, 2001:195). In any case, these measures were largely palliative.

The resulting financial limitations and lack of construction materials made the initial plans of the INV a resounding failure (see chapter 5 for details). Contradicting an official discourse that exalted the virtues of strongly regulated urban planning, local authorities showed an everyday permissiveness toward planning violations. Slums, for instance, were allowed to proliferate in an attempt to palliate the general lack of residential construction (Pedro, 2001:206-7). Paradoxically, the arrival of economic recovery in the 1950s only aggravated the housing problem. As renewed international trade facilitated the mechanisation of agriculture and the re-equipment of industry in the 1950s, the process of rural exodus, which had lied dormant in the previous decade, re-awakened. This, combined with the aforementioned failures to eschew the power of speculating landlords, placed urban areas under unprecedented strain. By 1955, 300,000 families were living in shared, overcrowded homes (Naredo, 2010), and the housing deficit stood at 1.5 million (Pedro, 2001:207).

This coincided with an intensification of the horizontal class conflicts within the dictatorship's bureaucracy, expressed in the factional struggles between *falangists* and *technocrats*. The *falangists*, the fascist old guard, remained committed to a paternalist and corporatist political economy. They were phased out of power by a rising group of ultra-catholic *technocrats*, who pushed a 'developmentalist' agenda more in tune with the recipes of the Bretton Woods institutions: market reforms, fast industrialisation policies, and the subordination of urban planning to economic growth.

Amid these political pressures, the falangists weaponised the residential apparatus – which remained largely under their control – to wage a turf war against their rivals. It was no accident that the aforementioned 1956 Land Law, a piece of legislation of clear falangist inspiration, insisted on the need for a strong and orderly planning of cities. The point was to resist the acceleration of the rural exodus cherished by the technocrats:

Urban planning ought to precede demographic changes. Rather than being its consequence, it should channel them towards adequate locations, limit the growth of the largest cities, and breathe life into areas of balanced development that can harmonise agrarian, industrial and urban economies.³⁵

³⁵ The quote is from the preamble of the 1956 Land Law. See *Ley de 12 de mayo de 1956 sobre régimen del suelo y ordenación urbana* (1956) BOE-A-1956-7013.

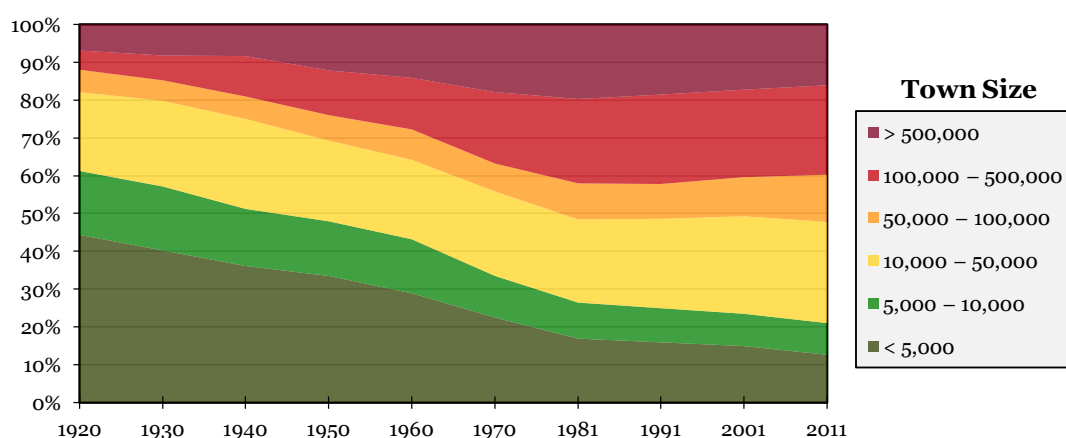
The falangists also entrenched themselves in the Ministry for Housing, created in 1957. One of the key instruments of the Ministry was the *Gerencia de Urbanización* ('Urbanisation Bureau'), an agency with powers to bypass the authority of local governments and intervene directly, anywhere in the country, to expropriate, plan, and urbanise entire areas (de Terán, 1972).

To stave off the rising technocrats, the falangists needed results. As it was becoming evident that the state simply lacked the means to create a public housing system, the falangist Ministry for Housing began to experiment with different means to boost residential production. The laboratory for this shift was the post-war reconstruction of Madrid. The difficulties in implementing the Bidagor Plan of 1946, which had envisioned a grandiose reconstruction of Madrid under the auspices of state-led construction, led to short-term desperate measures by 1953, when a 90% tax break was granted to local property developers (Neuman, 2010:105). From this experience emerged a policy of fixed 'brick and mortar' subsidies to incentivise residential construction at all costs. Starting in 1958, developers across the country were rewarded with 30,000 *pesetas* for every housing unit that they built (Pollard, 2008:175-177; Pedro, 2001:212). This measure was heralded by José Luis Arrese, Minister for Housing and major ideologue of falangism, who proclaimed the need to 'sound the alarm bell of private initiative' in order to make 'a springtime of homes bloom in Spain' (quoted in Naredo, 2010). Arrese also theorised the housing problem as a matter of public order and saw property ownership as a means to discipline the masses into orderly subjects (see chapter 5) (ibid.). In an attempt to engineer Arrese's vision of a property-owning autocracy, the new construction subsidies would almost always fund building for sale rather than for rent.

Privileging quantity over quality, the policy of fixed subsidies steered speculative impulses away from hoarding and inspired a feverish urge to build. Building as many homes as possible became an end in itself. Though the old patterns of speculation persisted – e.g. the practice of purchasing lands adjacent to urban centres in anticipation of their reclassification continued – this hoarding logic now overlapped with quick opportunities for profit in property development. For instance, it became common for landlords to evict their tenants just so that they could knock down their properties and redevelop the plot with as many properties for sale as possible (Naredo, 2010). Altogether, these dynamics set in motion a dramatic shift in tenure towards homeownership in Spanish cities.

Despite their success in boosting residential construction, the falangists were soon overpowered and purged by their rivals. In 1959, the technocrats consolidated their power with the unveiling of their grand economic programme, the Stabilisation Plan, which inaugurated the age of ‘developmentalism’. Launched after two years of collaboration with the World Bank and the International Monetary Fund, the Plan introduced a battery of new fiscal and monetary measures, removed bureaucratic regulations to a number of internal markets (including cement), and adopted an industrial policy based on permits and tariffs (rather than quotas) (Catalán, 2003:238). The state assumed a major role in commanding industrial development, funding strategic sectors and drafting French-style five-year plans (*Planes de Desarrollo*). This phase of industrial development came with large trade imbalances, due to the necessary imports of industrial equipment, a deficit that was only sustained by the parallel emergence of mass tourism industry, which facilitated the influx of foreign currency (Charnock et al., 2013:35).

FIG.7. THE PACE OF URBANISATION: POPULATION BY TOWN SIZE 1920-2011



Source: INE

Note 1: After 1970, official censuses were taken on the first year of every decade.

Note 2: The apparent urban growth during the 1940s is misleading, as all evidence suggests a ‘ruralisation’ of the population in this period. In reality, the urban growth registered in this decade was largely due to the annexation of 13 adjacent towns to the jurisdiction of Madrid, boosting its population by 250,000 ‘on paper’. This was a conscious political move to make Madrid, the capital of the nation, bigger than Barcelona (Neuman, 2010:104).

Over the next fifteen years, economic expansion advanced at forced marches of 7% annual growth (Amodia et al., 1998). These spectacular levels of growth – only second to Japan’s – were due to the initial ‘backwardness’ of Spanish industry: the import of industrial equipment allowed Spain to leapfrog to reach the standards of its more industrially developed neighbours (Catalán, 2003:238). Combined with the emergence

of mass tourism in this period, these processes of accelerated industrial development came with the fastest wave of urbanisation in Spanish history (Fig.7): the rural population of the southern half of the country relocated *en masse* to join the ranks of the booming industries. As the material quality of life of most Spaniards improved, the demand for second homes took off. Whereas in 1960 second homes constituted only 4.5% of the housing stock, by 1970 this figure would double to 9.3%, and by 1980 it would double yet again to 18.2% (Tafunell, 2005:463).

As the purge of falangists progressed, the technocrats co-opted the urbanistic practices of their rivals and redirected them toward their own purposes. In particular, they hollowed out urban policy from any planning regulations that could prevent urbanisation from advancing in pace with industrial growth. Metropolitan planning agencies continued to exist, but their authority was deliberately neglected and undermined (de Terán 1972, 1978; Neuman, 2010:116).³⁶ At first, to outflank the obstructive role of the falangist urbanisation agency (the *Gerencia*), the technocrats had created a second bureaucratic agency with overlapping competences: the *Comisaría para el Plan de Desarrollo* ('Comissariat for the Development Plan') (Pedro, 2001:212). This agency, firmly under their control, issued housing permits in industrial parks (*polígonos industriales*) that sat upon rural land in the outskirts of cities. These areas stood beyond the jurisdiction of municipal councils, and thus beyond the jurisdiction of the falangist Land Law, which only regulated *urban* land. This way, the way the technocratic administration equipped itself with powers to go over the head of local councils. Municipal plans were thus constantly amended by the central state to rezone greenfield sites without regard for local planning considerations (Naredo, 2010). Eventually, these practices were extended to areas of touristic interest, which were granted a status of 'special economic zones', where land-use planning was subordinated to the economic potential of beach-side properties and hotel resorts (López and Rodríguez, 2010:306).³⁷ The technocrats also applied the falangist policy of fixed 'brick and mortar' subsidies to residential development, to the point that these became homonymous with their economic doctrine. Commentators would henceforth speak of 'developmentalist' housing policies, and urbanistic excess became associated with the cult of economic growth of these years (see chapter 5).

³⁶ The institutional drift affecting metropolitan agencies is well documented in the literature (see footnote 10), especially the decline of COPLACO, Madrid's metropolitan planning agency, detailed by none other than its chief planner in the period Fernando de Terán (1972). For a more recent analysis see Neuman (2010:116)

³⁷ This policy implemented in 1963 by the 'Law of Centres and Zones of Touristic Interest' (López and Rodríguez, 2010:306)

FIG.8. URBAN SPRAWL: THE MADRID METROPOLITAN AREA IN 1975



Source: De Terán, 1993:287

Once the restrictions on urban growth were lifted, residential construction accelerated and home construction kept up with the pace of urban demand for the first time since the advent of nineteenth-century industrialisation: 2.7 million homes were built over the course of the 1960s (Tafunell, 2005:463). Cities sprawled uncontrollably in oil-spill shapes, as the reckless construction of poor-quality housing in industrial parks stretched the urban fabric out into previously isolated areas (Fig.8). These excesses were later admitted in the preamble of the Land Law of 1975: ‘the process of urban development has been characterised, in general, by a congestive densification of city centres, disorder in the peripheries, a lack of planning discipline, and unjustifiably steep prices in lands apt for urban expansion’.³⁸ In short, the city was surrendered to the whims of a new class of small property developers, sometimes drafted from the ranks of the landowning class.

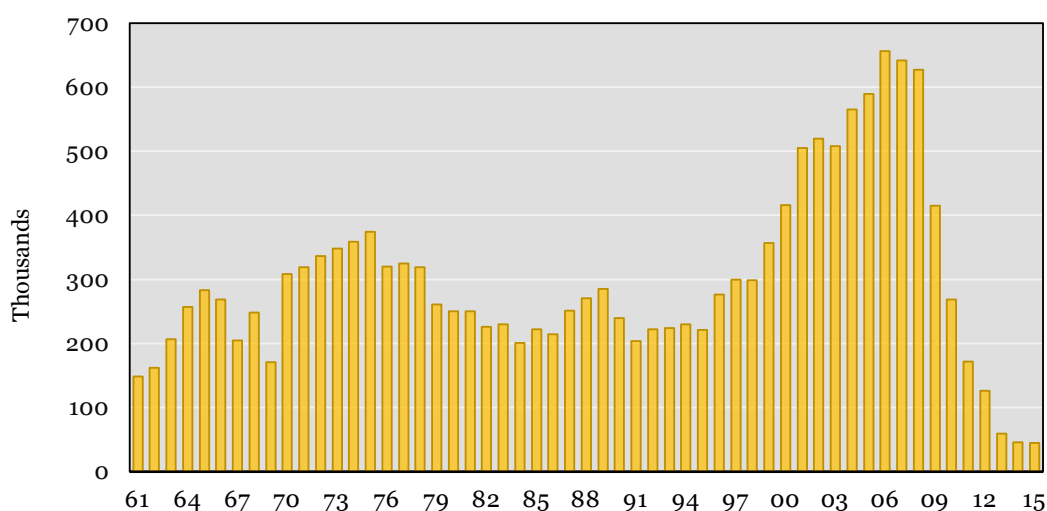
This take-off in urbanisation was buttressed by two structural transformations in the real-estate market in this period: (1) The focus on home-ownership of the construction subsidies would set in motion the *shift in tenure* originally envisioned by falangists. By 1960, ownership had already overturned renting as the main form of tenure in the country. (2) The switch in tenure introduced an element of *fast turnover in the real-estate market*. Building for sale turned residential development into a much more dynamic and profitable enterprise, as it granted developers a quicker amortisation of

³⁸ This piece of legislation can be found in the bibliography under *Ley 19/1975, de 2 de mayo, de reforma de la Ley sobre Régimen del Suelo y Ordenación Urbana* (1975) BOE-A-1975-9250.

their investments compared to the build-to-rent patterns of the nineteenth century (Tafunell, 1992:6). In addition to encouraging the formation of small residential construction firms, these market opportunities also attracted larger construction companies, which until then had mostly focused on large-scale projects around industrial construction and civil engineering (Torres Villanueva, 2009:116). The result was the emergence of a *residential capitalism* that had not existed before. A permanent industry dedicated to property development was born, a significant departure from earlier patterns of occasional developers-landlords.

Yet, this new-born residential capitalism quickly unravelled during the stagflation crisis of the 1970s. As industrial growth stagnated and the country experienced high rates of inflation, the policy of brick and mortar subsidies was abandoned in 1975. Around the same time, the state's economic strategists concluded that most inflation was radiating out of a heavily subsidised housing sector (Pedro, 2001:224-230). Thus, the accelerated wave of urbanisation of the 1960s came to an abrupt halt. Without the support of construction subsidies, home production entered a 25-year phase of decline (Fig.9). As if part of a historical layer had been shaved off to reveal another bed of sedimentation beneath, the patterns of land hoarding of a previous age – the norm until only a few years before – came to the fore once again.

FIG.9. HOME PRODUCTION 1961-2015



Source: Pedro, 2001; Ministerio de Fomento.

4.3. Third Layer: Into the Age of Housing Bubbles

The institutions of the third layer were laid down in an attempt to reinvigorate the pace of urban development to address a number of problems, some old – the reappearance of land hoarding, renewed housing shortages – some new – the challenges of a post-industrial urban fabric, the phenomenon house-price bubbles. These pressures fell on the shoulders of local and regional governments, to which most land-use planning competences were devolved in this period.

With the discontinuity of construction subsidies after 1975, home production declined, the housing crisis resumed, and the practice of land hoarding resurfaced. Similarly to the 1940s, the state attempted to reboot its residential apparatus with an ambitious programme of public housing provision in 1976-1978, a plan that failed due to the weak financial situation of the country (see chapter 5). By 1981, there was a deficit of 234,000 homes, a problem that would only deepen as the decade progressed (Pedro, 2001:237). Indeed, according to Aurora Pedro's estimates, the housing deficit stood at between 2.5-3 million homes during the 1980s. This shortage is even more striking considering the end of the migratory pressures that had determined the pace of urbanisation in the past. With the crisis of manufacturing, the century-long process of rural exodus had come to an end.

These events overlapped with a deep restructuring of the state, in the process of which the functions of urban planning were diffused to lower administrative scales. By the time General Franco died in 1975, the streets of Spain were boiling with unrest. A resurgent worker's movement pressed against the repressive grip of the dictatorship; cultural minorities demanded regional devolution; and local neighbourhood assemblies, tired of developers preying on their cities, pushed for a democratisation of municipal structures (Rodríguez, 2015; Martínez, 2011). As these demands were addressed in the Constitution of 1978, the Spanish state mutated into a federal democracy, with power decentralised into an assemblage of autonomous regional governments, and in which municipalities were given extensive powers over the process of urban development. The constitutional text that founded this legal order explicitly addressed the resurgent problem of land speculation through hoarding:

All Spaniards have the right to enjoy a dignified and suitable home. Public powers shall promote the necessary conditions and establish the relevant rules

to implement this right, regulating land-use in line with the general interest in order to avoid speculation.³⁹

To palliate the problem, municipalities gained the power to levy a share of the housing plots urbanised by landowners, usually between 10-15%, in order to ensure the existence of a public supply of land to curb hoarding (Marcinkoski, 2016:62-9). Local governments also gained enormous discretionary powers over building permits and planning amendments. Starting in 1980s Madrid, municipalities began to strike bilateral deals with developers to amend urban plans in line with their interests, including the re-zoning of lands to inflate their values, as long as beneficiary developers were willing to fulfil specific commitments for the council (Benito et al., 2015:198-199). For instance, it would be common for developers to agree to build free housing for the homeless in exchange for favourable permits to redevelop urban areas (see chapter 7).

The residential apparatus also adopted wholly different instruments to those of the past. A new demand-side approach replaced the old inflationary policies of construction subsidies. Starting in 1976, tax breaks and mortgage regulations began to supplant construction subsidies as the main instrument of state intervention in the housing market. In 1985, this policy culminated in a massive 17% tax break to home purchase *without limit on the amount of homes acquired and without conditions on the ultimate purpose of the operation* (Pedro, 2001:292). Combined with an expanding supply of mortgage credit, the tax breaks prompted a rush to the real estate market, as investors began to purchase properties in bulk. Spain's entry into the EEC in 1986 only added momentum to this process, setting in motion a train of house-price increases. Out of the foreign investment that funnelled in, 39% landed in the property market, driven by leading international real estate companies (e.g. KIO, Parreti, Heron, Reinhold).⁴⁰ In the case of new homes, prices increased at a year-on-year average of 27.4% between 1985-1990, stimulating construction somewhat, but only timidly (see Figs.4, 5). Indeed, the asset-price increases proved to be a poor incentive to reverse the trend of decline in residential production, precisely because the house-price increase attracting investors was sustained by the initial scarcity of housing.

³⁹ The quote is from art.48 of the Spanish Constitution. See *Constitución Española* (1978) BOE-A-1978-31229.

⁴⁰ The bulk of this investment concentrated in the Mediterranean regions, first and foremost, the southern region of Andalusia (64%), followed by Baleares (11%), Catalonia (7,7%), and Valencia (7,1%) (Pedro, 2001:297).

This was a new phenomenon in continental Europe: *a housing bubble had formed* (López and Rodríguez, 2011). In one of the earliest expressions of a pattern that has become all too common in recent decades, price increases began in city centres – due to a rising demand for office space – and then rippled outwards to the periphery. The pressures of gentrification generated tensions between middle class professionals and a growing urban underclass, as the poor were pushed to the outskirts in order to fulfil their (by then deeply-rooted) aspirations of home-ownership. As much as these new patterns were a result of Europeanisation and financialisation, they would have been impossible without specific structural transformations handed down from the Francoist age. For example, a property-owning society, which by 1991 already amounted to 78.3% of the population (see INE), and consequently, a housing sector commodified enough to attract speculators. This bubble ran out of momentum in the midst of the European-wide recession detonated by the ERM crisis. Yet, rather than causing a freefall in prices, the burst only caused them to plateau, and the problem of affordability was dragged over into the middle of the 1990s (Fig.10).

The housing question became a burning political issue during this decade, when the historic problem of land hoarding once again reemerged. Although the basic matrix of land-use planning regulations remained the same as the one introduced by the Land Law of 1956, some important changes had unfolded since.⁴¹ The Constitution of 1978 had devolved planning competencies over ‘territory, urbanism and housing’ to the new regional governments.⁴² Throughout the 1980s, some regions developed instruments of territorial development and regional planning legislation, especially those with the strongest aspirations of self-government (e.g. Catalonia), whereas others deliberately neglected these competencies in order to give developers free rein (e.g. Andalucía) (Coq-Huelva, 2015:1220-3).⁴³ In 1990, a new Land Law was introduced to patch up these deficiencies, an attempt that was immediately challenged in court by several regional governments for overstepping their now federal jurisdiction.⁴⁴ The Law also targeted the growing problem of land hoarding by specifying the obligation of urban landowners to build according to the plans dictated by their municipalities. They introduced clear sanctions should landowners failed to comply, something that clashed

⁴¹ Another national planning law was passed in 1975 to combat the excesses of urban developmentalism, a largely ineffective piece of legislation. The effort was too little and arrived too late (Matesanz, 2009).

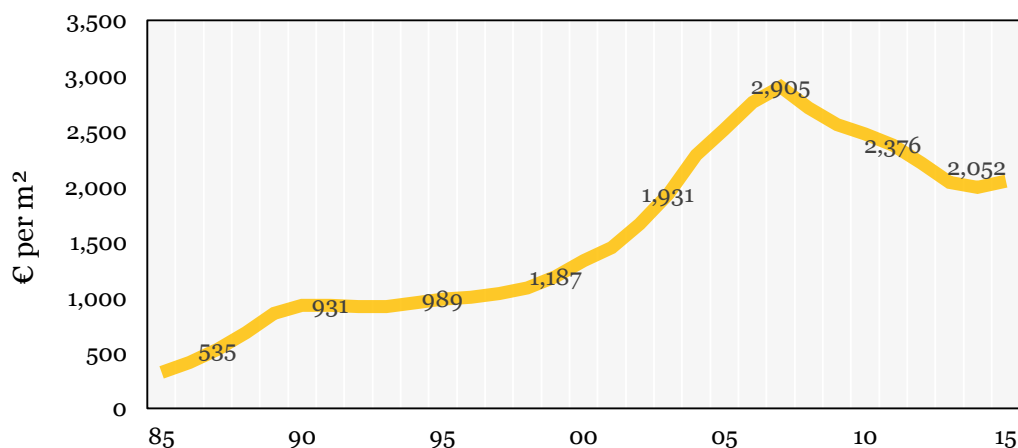
⁴² The quote is from art. 148(3) of the Spanish Constitution. See *Constitución Española* [1978], BOE-A-1978-31229.

⁴³ As early as 1980, Catalonia created a specialist agency for urban planning purposes, the Catalan Land Institute. In 1983, the regional government passed a law ‘for the development of a comprehensive system of territorial planning that would include changes in the qualifications of lands and the planning of the growth of the major cities’ (Coq-Huelva, 2013:1220)

⁴⁴ The regional governments that challenged the law were those of Catalonia, Aragon, Navarre, Cantabria, Castilla & León, Canarias and, later, the Balearic Islands (Matesanz, 2009).

with the latter's strong private property rights, enshrined in Spanish building law since the nineteenth century. It was mainly for this reason that the 1992 Law was struck down by the Constitutional Court in a 1997 sentence, making the passing of a new national planning law a matter of urgency.

FIG.10. NEW HOME PRICES 1985-2015



Source: Sociedad de Tasación

4.4. Fourth Layer: The Entrepreneurial City

The Land Law of 1997-8, the so-called 'build-anywhere law', laid down the fourth layer of modern urbanism. For the first time, this piece of legislation tackled head-on the legacy of the *ensanche*, introducing highly innovative reforms in the system of land valuations and creating the figure of the *urbaniser*: a property developer empowered to override the legal primacy of landowners in the process of urbanisation. Though the law was successful in stimulating residential production, it failed to bring home prices down, instead inflating a massive property bubble. This unintended consequence became a 'happy accident'. The state embraced the bubble and turned it into an integral part of its residential apparatus.

After seizing power in the general elections of 1996, the conservative People's Party (PP) promised to palliate the housing problem with supply-side economics, under the assumption that 'the foremost cause of the housing shortages is the scarcity of building land', as the finance minister Rodrigo Rato put it at the time (quoted in Gaja, 2005). In short, the argument was that a liberalisation of the land market would result in an expansion of the housing stock, in turn forcing home prices down. This logic was inspired by the experiments of Valencia's regional planning law, an innovative piece

of legislation that traced the source of the housing problem to the excessive regulations strangling the supply of land available for construction.⁴⁵ As Fernández (2009) explains, this argument was premised on a factual error: as early as 1993, a report from the Ministry of Public Works revealed there were 185,000 hectares of already zoned land amongst Spain's 589 largest municipalities. This meant that roughly 70% of their aggregate area was already readily available for urban development. In other words, bureaucracy was not a chokehold on the land supply. Regardless, the new national government took the premises of the Valencian planning law at face value and proceeded to extend its supply-side prescriptions to the rest of the country.

The result was the notorious Land Law of 1997-8, a reform that tackled age-old problems of Spanish urbanism with three radical innovations : (1) the figure of the 'urbanising agent' (*agente urbanizador*); (2) the abolition of the distinction between 'developable' and 'rural' land; and (3) a new system of land valuations that used market prices as a benchmark.

(1) The 'urbanising agent' (or 'urbaniser') was a new juridical form that conferred upon private developers the right to draft and enforce urban planning regulations (Marcinkoski, 2016:68-78). Put simply, through this practice, the local state gained the capacity to privatise some of its powers over the urban process to private agents. After applying for the necessary authorisations, licenced developers could submit a project for the re-development of an area to the respective local council. In order to prevent potential conflicts of interest, the urbanisers could not own the lands of the planned development before. If the urbaniser's proposal was approved by the local council, the landowner could either (a) *cooperate*, something which implied paying for costs of having their lands parcelled in exchange for a portion of the housing plots that emerged from this process; or (b) be *expropriated*. The municipality would administer the expropriation process, but the urbaniser bore the responsibility of enforcing the process and compensating the landowners. Urbanisers found this arrangement a profitable venture because, once the necessary urban infrastructure was laid down (e.g. sidewalks, lighting, etc.), *they automatically gained ownership of the resulting greenfield plots*, which were readily available for residential construction.⁴⁶ This accelerated the pace of building operations, as it removed any ambiguities as to what were to happen if landowners refused to build according to the urban plan. Thus, the role of the landowners as prime movers of urban development, an institutional power

⁴⁵ See *Ley reguladora de la actividad urbanística* (1994), 2602/1994.

⁴⁶ See Appendix A for the ruinous effects of this measure in the wake of the bubble burst.

that crystallised in the nineteenth century, was subverted and passed onto the developer class.

(2) The abolition of the distinction between ‘developable’ and ‘rural’ land was another radical rupture with previous planning practices. Until then, all urban planning institutions had been premised on a clear demarcation of the space where planning operations could take place. This was the whole basis of the concept of the ‘*ensanche*’ (‘enlargement’), the space for a projected urban expansion, which had been defined against the notion of the ‘*extrarradio*’ (‘beyond the city radius’). Likewise, the Land Law of 1956 confined urban planning operations to lands classified as ‘urban reserve’, as opposed to lands classified as ‘rural’ (Matesanz, 2009). By contrast, the 1998 Law inverted this logic. From then on, the starting assumption was that *all lands* were ‘developable’ by default, reducing the role of the planner to delimitating which lands were not (e.g. wildlife reserves, etc.) (Marcinkoski, 2016:68-78). The purpose was to tackle the common practice of buying up and hoarding lands adjacent to urban areas in expectation of a change in land denominations that would boost their value. In short, by drastically expanding the supply of land available for urban development, this change sought to undo the market opportunities underpinning age-old dynamics of land hoarding.

(3) The Law also added a twist to the system of land valuations that had been in force since the era of the *ensanche* (Matesanz, 2009). Since the nineteenth century, landowners expropriated for the purposes of urban developments had been compensated for the full urban *potential* of their lands, regardless of whether they were developed or not. However, the system to calculate the value of such compensation employed obscure criteria prone to corrupt manipulations. The Law’s preamble condemned such ‘artificial formulas’, and ‘opted for establishing a system that seeks to reflect, with the greatest accuracy possible, the real value that the market assigns to every type of land’.⁴⁷ Though the peculiar system of compensation for future values continued, ‘real values’ were now meant to be revealed by the rational arbitration of market forces – an assumption that encapsulates the neoliberal axioms guiding the reform.

The Land Law of 1998 was a resounding success in its attempt to stimulate residential production. The new urban planning mechanisms ignited a feverish urge to build that

⁴⁷ Quote from the preamble of the Land Law of 1998, cited in the bibliography under *Ley 6/1998, de 13 de abril, sobre régimen del suelo y valoraciones* (1998) BOE-A-1998-8788.

echoed the 'developmentalist' period of the 1960s. Home construction was fostered at all costs, and in particular at the expense of urban planning. As early as the year 2000, Spain was building more homes than any other European country, and by 2006, more than France, Germany, Italy and the UK *combined*. Indeed, between 2003 and 2007, more than 600,000 home permits were issued every year, reaching the extraordinary figure of 865,000 in 2006 alone (Romero et al., 2012:469). Overall, in the decade between 1998-2008, 6.5 million residential building permits were issued. By the end of this period, there were 1.87 homes per inhabitant in the country (Coq-Huelva, 2013:1223).

However, this desired outcome did not come about for the reasons expected. The law did not meet its objectives to curtail speculation, it merely shifted its shape. Indeed, it was speculation that propitiated the construction boom itself, even if not by traditional means (i.e. hoarding), but through 'newer' forms of asset-price speculation. An initial burst of speculative demand for housing came from stock-market investors fleeing the low yields of late 1990s, but also from money launderers rushing to purchase properties in cash in an attempt to legalise their pools of undeclared *pesetas* ahead of the introduction of the Euro, as the currency change would have rendered worthless their 'black' money stores. In the initial stages of the boom (between 1999 and 2001), it has been estimated, 400,000 homes were purchased by investors seeking to store the decaying value of their paper assets in home equity (Burriel, 2008). This overlapped with a surge in demand for second homes in the rural areas surrounding Madrid but mainly along the Mediterranean coast; a process greatly buttressed by international buyers, many of whom were British retirees.⁴⁸ Thus, the spectacular growth of the housing stock did not bring a predicted fall in home prices. Quite the opposite: defying the 'laws' of supply and demand, prices skyrocketed 197% and inflated a new bubble (Coq-Huelva, 2013:1223; Fig.10).

That the growth in construction would translate into a new housing bubble was an unintended consequence of the new planning institutions, an accident that created a mutually-reinforcing dynamic of speculation between land and housing assets. The sudden growth in demand for property pushed up house prices, which in turn inflated the value of land across the board, as the new land valuation procedures required land prices to be benchmarked against the housing market. In turn, the growth in land prices across the board drove up house prices even further as the underlying land

⁴⁸ 61% of all home production agglomerated in only 13 provinces out of 50, the majority of which are along the Mediterranean coast (Burriel, 2009).

constituted a fundamental input in the value of a given home. The further growth in house prices attracted more investment into the market, a process later magnified by the influx of cheap credit from the Eurozone, which further increased land prices, and so on. But there were other mechanisms driving this vicious circle of price inflation. As urbanisers began to expropriate vast swathes of developable land, expropriated landowners made enormous profits with the new-market based valuation system, which calculated their compensations by factoring in the unexpected price increases in the housing market. This further encouraged investors to purchase rural lands in expectation of future urban developments, driving up land prices even further. The dynamic was so lucrative that even farmers, having lost the traditional attachment to agrarian life over time, began to pressure their municipalities to have their properties rezoned so they could grow rich on the land plot (Burriel, 2008).

Despite these unintended effects, local, regional and national governments of different political stripes were eager to benefit from the effects of the bubble, embracing them as a new integral part of their residential apparatuses as rising prices encouraged speculative construction (Romero et al., 2012:469). As in the 1960s, the excesses of urban development did not seem to matter to political authorities. On the contrary, home construction figures were constantly publicised as representatives of the prowess of the Spanish economy. Local governments repeatedly meddled in land designation procedures in order to keep home prices high. Indeed, all of a sudden, rather than being seen as a problem, keeping home prices high became a priority of macroeconomic policy. Of course, this phenomenon, termed as 'house-price Keynesianism' by Watson (2009, 2010), occurred simultaneously in other countries, such as the UK or the US. This macroeconomic strategy was possible because the problem of housing affordability was temporarily suspended by the Euro and the alchemy of mortgage securitisation, the combination of which provided a burst of cheap credit and allowed increasingly precarious home-owners to rein in the wealth-effects of their increasingly valuable properties (López & Rodríguez, 2010:229). This way, the 'boomtown mentality' was generalised and neo-developmental policies spread against a backdrop of strong social support.⁴⁹

⁴⁹ Only as the crash seemed imminent, the 1998 Land Law was replaced by a new planning law with anti-speculative purposes – however, by then it was too late. The Land Law of 2007, still in force, has introduced a cap the system of land valuations and restructured the categories of land in an attempt to redirect the impulses of Spanish urbanism in more sustainable directions (Matesanz, 2009).

4.5. Conclusion

Reached this point, the chapter must come full circle and return to the European Parliament report alluded to in the opening: '[European citizens] have become the collateral victims of many rampant urbanisation programmes founded upon legislation which provides privilege and wealth for the *urbaniser* and which denies individuals their very integrity' (Libick & Cashman, 2007:2, emphasis added). Having now traced the pre-history of the build-anywhere law, the report's alarm at the recklessness of so-called 'urbanisers' acquires a historical significance. As we have seen, the build-anywhere law that brought these empowered developers into being was only the latest (and most effective) attempt to invigorate the Spanish apparatus of residential provision at the expense of hoarding interests.

Since the advent of the modern city in the nineteenth century, the urban landowning class has mobilised its institutional power – crystallised in their legal primacy over urban development and in a peculiar system of land valuations – to hoard lands for profit at the expense of the residential needs of the majority. Over time, successive layers of institutional fixes have been laid on top of these problems in order to address a resulting near-perpetual housing deficit, but always while preserving the pressures of the systems buried beneath these layers. As I have shown, in the middle of the twentieth century, a new layer of institutions was laid down to amend the problems of residential provision derived from the previous system. To make residential construction more lucrative than hoarding, the state began rewarding developers with fixed subsidies for every housing unit built. This policy had the lasting consequence of prompting a long-term shift in tenure – from rent to home-ownership – and of creating a property development industry. These structural shifts outlived the policy of construction subsidies, preparing the field for the inflation of property bubbles as Spain entered the age of financialisation. However, the abolishment of construction subsidies in the mid-1970s prompted the patterns of urban speculation of the nineteenth century to resurface and the housing crisis to resume.

By the 1990s, the state started experimenting with urban planning regulations to address the historic problem of land hoarding, the culmination of which was the build-anywhere law of 1997-8. This radically innovative piece of legislation tackled the power of the urban landowning class by instituting the figure of the 'urbaniser' – a greatly empowered property developer – and by changing the old system of land valuations. The law was a resounding success in fostering home construction. However, it did not

curtail land speculation nor bring down house prices – its main objective. Quite the opposite, it inflated an asset-price bubble, an unintended consequence that the state embraced in an attempt to integrate its effects into its apparatus of residential provision.

It is worth remarking on the advances that this chapter has made to address the underlying research question: *why did the Spanish path into the crisis manifest as two seemingly contradictory processes – as a house-price bubble and as a wave of residential overproduction?* The genealogy of urban planning practices traced by this chapter shows how the construction boom that swept through Spain during the 2000s was the culmination of a slow institutional maturation, a process in which a unique lineage of institutions and the unintended consequences of policy experiments combined to produce a peculiar outcome. This perspective is the result of deploying a method of analysis that emphasises the political – i.e. the vector of power struggles giving shape to social structures – with a particular focus on its dimension as layered struggle – i.e. how the layering of the outcomes of past struggles shapes the terrain of subsequent power struggles.

In making this case, this chapter buttresses the central claim of the thesis that the origin story of the Spanish crisis is irreducible to a macrostructural formula. Rather, the crash was the outcome of a historically specific experience, the result of a long trail of sedimented efforts to build an apparatus of residential provision. If this chapter has explored the historicity of the Spanish residential apparatus from the angle of urban planning, the next chapter will do so from the perspective of the Spanish housing system, focusing on the rise of homeownership and the culture of mass speculation that enabled the bubble to assume the proportions that it did.

5. The Iconicity of Housing: The Formation of a Culture of Mass Speculation

5.0. Introduction

During the 2017 Madrid International Real Estate Expo (SIMA), the stand of *idealista.com*, the main Spanish property portal, offered attendants the possibility to have two famous maxims of real-estate investment tattooed onto their skin: (1) ‘renting is throwing money away’, and (2) ‘home prices never go down’ (*idealista.com*, 2017). In the years of the bubble, the repetition of these utterances *ad infinitum* elevated them to the status of common knowledge. However, ten years after the crash, *idealista.com* insisted that prospective investors should have these ‘fallacious affirmations’ tattooed for the opposite reason: ‘to avoid the mistakes of the past [...] lest we forget what occurred’. Though the emergence of a housing system geared towards mass speculation figures prominently in accounts of the Spanish crash – particularly in the spatial fix narrative – these studies tend to take for granted the emergence of a subjectivity conducive towards mass property speculation. The ideological expressions of mass speculation tend to be represented as logical outcomes of a social structure dominated by homeownership. The mechanical analogies used in these narratives are telling. For instance, López and Rodríguez write that a ‘society of proprietors’ acts as a ‘true *machine* of subjectivation for financialisation, the material *dynamo* driving the debt-investment spirals that have *captured* household economies’ (López & Rodríguez, 2010:217, emphasis added). By understanding subjectivities as the mechanical outcome of underlying structures, these narratives fail to explain that in order to take root in Spanish society, the financialisation of household economies necessitated *both* interpellations of economic pressures and an active cultural construction shaped by successive performative gestures (such as *idealista.com*’s). What is missing, in other words, is a performative dimension that explains how household financialisation required subjects prepared to respond to – and, in turn, shape – the interpellations of economic pressures.

The purpose of this chapter is to capture the political contingencies and intersubjective connections that preceded, and enabled, the processes of mass property speculation and reckless urbanisation of the 2000s. The chapter traces the emergence of a society of speculative homeowners by mapping the changes in the form of housing provision over time (e.g. shifts in tenure), alongside the discursive constructions shaping the imagination of Spanish dwellers over time. This analysis reinforces the central claim

of my narrative that the Spanish bubble needs to be understood through the prism of a historically-specific *apparatus of residential provision* by exploring how Spanish citizens made sense of, contributed to, and lived with household financialisation. It must be noted that the point of this analysis is not to advance the ultimate perspective into the cultural drives of Spanish housing speculation, but to cast some light on a crucial side of the story that has been missed by accounts that do not take seriously the *everyday* dimensions of housing politics, i.e. how the housing system is renegotiated by daily practices and discourses.

To capture the historicity of everyday processes, the chapter deploys the notions of ‘performative agency’ (Butler, 2010) and ‘iconicity’ (Konings, 2015) explored in chapter 2. To provide a brief recap, the notion of performative agency captures the contingency of signification. A discourse carrying a specific political intervention always involves a wager which may or may not be accepted by those it targets (i.e. a perlocutionary utterance). In the event that it is, however, the intersubjective connections created by a discourse (e.g. ‘growth = progress’) can ‘sink in’ and sediment over, reshaping the symbolic imaginary of a particular society. In which case, it is likely that a sign will accrue ‘iconic’ features, becoming a short-hand symbol for complex clusters of meaning that come to be taken for granted. Building upon these notions, this chapter will show how the bubble tapped into three historically-grown ‘iconicities’ in the Spanish housing imaginary: (1) *homeownership* as an icon of status and intergenerational justice, (2) *reckless urban development* as an icon of social progress and economic growth, and (3) *house-price increases* as an icon of personal wealth and macroeconomic stability.

These iconicities correspond to the chapter’s three parts, split into two sections each. The first part (5.1.) will explore the remarkably early (and fast) emergence of a homeownership society in Spain, tracing alongside one another the material pressures, political strategies, and cultural factors that drove this process. Section 5.1.1. will return to the material pressures of urbanisation addressed in the previous chapter, this time to examine them through the prism of housing policy (rather than urban planning). Section 5.1.2. will explore how the solutions to the dearth of urban housing involved the mass diffusion of homeownership, a dramatic change that was quickly internalised by a rapidly urbanising rural population. The second part of the chapter (5.2.) will explore the role of ideologies of economic progress in the shaping of this propertied society. Section 5.2.1. will examine how in the 1960s the Francoist dictatorship sought to turn reckless urbanisation and deficient housing conditions into

a signifier of economic advance, a performative wager that working-class activism successfully subverted in the 1970s. Section 5.2.2. will examine the re-emergence of housing speculation and reckless urbanisation as a signifier of economic advance in the midst of European integration. The third part (5.3.) will explore how home-price increases became an icon of macroeconomic success, enabling the state to rely on house-price speculation as a form of economic stimulus – what Watson (2010) has called ‘house-price Keynesianism’. Section 5.3.1. will start out by tracing how the defeat of the wave of working-class activism of the 1970s led to the formation of what is referred to here as a class of ‘semi-proletarian homeowners’ – a layer of propertied workers that complemented their incomes by borrowing against home equity. Section 5.3.2. will examine how this newly-formed class was educated to relish asset-price increases.

5.1. ‘Renting is Throwing Money Away’: A Society of Proprietors

The purpose of this first part is to explore the basic cultural matrix of the bubble: the society of proprietors that took shape between 1950-1980. The fast diffusion of homeownership in these decades, along with the side-lining of social housing, was a consequence of public efforts to palliate an acute housing deficit by encouraging developers to build for profit (i.e. the formation of a capitalist residential apparatus). To legitimise this process, the state exalted the values of homeownership as a family enterprise, something that appealed to a quickly urbanising rural population, who generally owned property in their towns of origin. The success of this project meant that by the end of this period, homeownership had consolidated as an icon of long-term investment, inter-generational justice, and personal success, whereas alternative forms of residential provision came to carry the stigma of precarity and social marginalisation. These processes equipped the Spanish housing system with the structural potential for mass speculation.

5.1.1. Residential Capitalism Against Housing Deficits

As addressed in the previous chapter, the Francoist dictatorship came out of the Spanish Civil War with the urgent mission of addressing the acute problem of housing provision inherited from a previous age. The 1940s and 50s saw the first experiments with mass public housing in Spanish history, initiatives that were planned and commanded by the newly-created *Instituto Nacional de Vivienda* (INV) (Blasco, 1993:268). At first, the development of public housing was confined to state agencies

and other organisations of the regime (e.g. *Sindicato Vertical*, the fascist trade union), which, in turn, tended to allocate these dwellings to the dictatorship's *protégés*. Construction firms were banned from developing homes for profit, pushing private developers out of the real-estate business altogether. Legally, private housing could only be built by savings banks and by businesses developing homes for their employees, but they had to abide by the strict price controls imposed by the state. This heavily statist system remained in force throughout the 1940s and early 1950s, delivering catastrophic results. The first housing plan (1939) envisioned the construction of 500,000 homes, yet, largely due to the post-war depression and the lack of construction materials available, only 156,000 were ever completed. Moreover, despite the state's insistence on state-led construction, only 4% of these units were actually built by public institutions (Pedro, 2001:203-207).

The mounting housing deficit and the inability of the state to develop a public apparatus of residential provision forced the hand of the dictatorship to 'sound the alarm bells of private initiative', as the falangist Housing Minister put it (Arese quoted in Naredo, 2010). From the mid-1950s, successive pieces of legislation opened up the housing market to the profit motive. While social housing was to remain fully public and directly built by the state, the construction of *price-controlled housing* was opened up to the initiatives of private developers, who were welcomed back into the business with generous construction subsidies.⁵⁰ In 1954, developers were offered a 20% subsidy on the construction costs of smaller housing units, a measure devised to compensate developers for being forced to sell their product at low prices (Blasco, 1993:270, 282). The good results encouraged the state to step up the incentives in subsequent years. From 1958, builders were rewarded with a 'brick and mortar' subsidy of 30,000 pesetas *per housing unit built*, regardless of size (Pedro, 2001:209, 212-225). The objective of these subsidies was, put simply, to turn building as much as possible into an end in itself, privileging quantity over quality. In this sense, the policy was a resounding success. Even though the state had only envisioned the development of 550,000 homes between 1955-1960, more than 3,000,000 housing units were built in this short period. These spectacular results consolidated the strategy it in the coming

⁵⁰ I have applied the term 'price-controlled housing' to a number of housing categories of this period: '*viviendas bonificables*' (introduced in 1944); '*viviendas de renta limitada*' (1954); '*viviendas subvencionadas*' (1957); and '*viviendas de protección oficial*' (1963). As Pollard (2008) explains, despite the constantly changing names, these categories all serve to designate a vast subsidised housing sector, mainly for sale. Starting in 1963, 'price-controlled' housing and 'social' housing (i.e. publicly-developed), were lumped together under a single legal category: 'publicly-protected housing' (*vivienda de protección oficial*), a nomenclature that persists to this day and that serves to hide the role of public housing from view. Irrespective of the legal category in force, this chapter will insist on continuing to distinguish between the two forms of residential provision.

decade, when planned targets were vastly exceeded once again. Even though the state had planned for the construction of 3,000,000 homes in the period between 1961-1976, this figure was achieved as early as 1968 (ibid.:212-227).

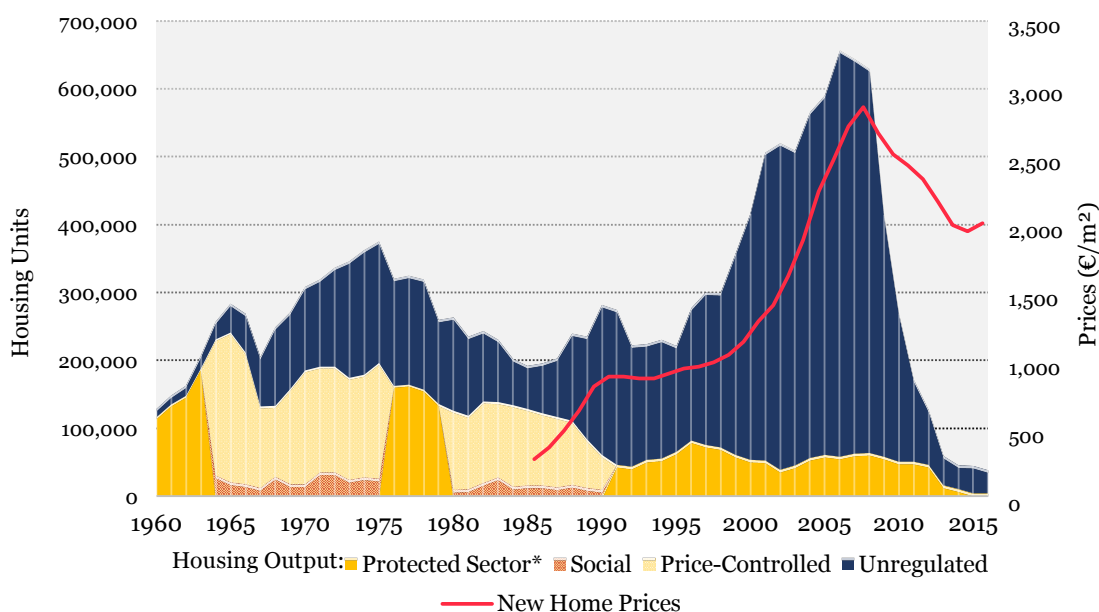
This spawned a dynamic housing market driven by a permanent industry of property development that had not existed before – a residential capitalism had emerged. As the process of urbanisation heated up in the years of fast industrialisation of the 1960s, rising land prices increased the input costs of property developers, who began to turn down state subsidies so that they could raise prices beyond the caps set by the state. The capitalist drive toward cost-effective production became evident after 1967, when price-controlled housing began to be displaced by dwellings built outside of the purview of the state's price controls (*vivienda libre*) – a mode of housing provision which I shall henceforth refer to as 'unregulated housing' (see Fig.11 below). Into the 1970s, this form of housing detached from price constraints came to amount to 40-50% of all newly built housing.

This capitalist residential apparatus fed off the rising purchasing power of Spaniards and an increase in the demand for second homes, which tripled between 1960 and 1970, and doubled again between 1970 and 1980 (Tafunell, 2005:463). Growing demand for housing coincided with the rise in mass tourism. Indeed, great part of the demand corresponded with the desire to acquire a beach-side property. However, as elsewhere in the European south, the demand for second homes was also part of a widespread aspiration amongst rural migrants to build holiday homes in their towns of origin (Castles & Ferrera, 1996). Publicly-developed social housing became marginalised, reduced to a form of welfare catering to the poorest strata, one that was prevalent around industrial parks and in the outskirts of urban areas (Bertrán, 2002:32-34). Similarly, as unregulated housing took off, the price-controlled sector was gradually reconceived to fulfil a similar 'social' function, as the reduced prices were perceived to be geared towards those of lower means.

Residential production peaked in 1975, when the housing system came up against the crisis of 'stagflation' (Fig.11). Economic planners identified a major source of inflation in the housing subsidies that had been driving residential production since the 1950s, proceeding to abolish them (Pedro, 2001:224-230). With the removal of public incentives, price-controlled housing entered a steady phase of decline and would never recover the rates of production of these years. At the same time, a rampant inflation translated into skyrocketing credit costs, as interest rates reached the heights of 22%

in 1977 (see chapter 6). Combined with surging unemployment, these factors strangled the market for unregulated housing. Altogether, the country entered the second half of the 1970s with a sudden drop in residential construction, plunging the housing stock into renewed shortages.

FIG.11. CONSTRUCTION BY HOUSING SECTOR VS. HOME PRICES (1960-2016)



Sources: Data for housing output from Tafunell (2005:492); Pedro (2001:234-236, 332-333); *Ministerio de Fomento*. Data for home prices from *Sociedad de Tasación*.

Note: Data for the 'protected' sector includes both social housing (publicly-developed) and price-controlled housing (privately-developed but subject to price controls). See footnote 49 for further clarification of the distinction between housing nomenclatures in this chapter.

The initial response by policy-makers was to reboot the country's social housing system with an ambitious programme of public development in 1976 (Blasco, 1993:282-283). The purpose of this project was to converge the Spanish housing market with the social housing systems of the European north. If successful, this initiative would have disturbed the pattern of residential production set in motion two decades earlier. However, the extremely high interest rates complicated the financing of this project, which consequently delivered very poor results. The plan was abandoned only two years later, when only 27,000 units out of the envisioned 450,000 had been completed. This setback would mark the last attempt to establish a public residential apparatus, consolidating the role that residential capitalism and unregulated housing came to play in the subsequent history of Spanish housing.

Facing the difficulties in reinvigorating construction, the state opted for sounding the alarm bells of private initiative once again. Rather than returning to a policy of subsidies, state planners began to experiment with different ways of stimulating the capitalist residential apparatus. State planners introduced a new instrument of intervention in the housing market: *tax breaks to home purchase*.⁵¹ Starting in 1978, new tax legislation introduced 15% tax deductions to the acquisition of first homes (López & Rodríguez, 2010:272). These measures were dramatically stepped up in 1985, when a major round of tax breaks increased these deductions to 17% and extended their reach to the purchase of second homes, without limit on the number of units acquired. In an increasingly post-industrial economy, where a high demand for office space was pushing up land prices in city centres and fostering processes of gentrification, these fiscal measures turned property into a formidable investment, prompting a rush to the property market (Pedro, 2001:292-299). This process was later magnified by the entry of foreign capital after Spain's accession to the European Economic Community in 1986, setting in motion a train of self-reproducing price increases: a housing bubble had formed (see chapter 4). This context boosted construction in the unregulated housing sector somewhat, as the lack of pricing constraints was attractive to investors driven into the market by the prospect of price increases. Despite this stimulus, the surge in residential construction brought by speculative investment failed to cover demand. Throughout the 1980s, housing shortages remained the norm.

When the bubble burst in the context of the ERM crisis of 1992, the only option that state officials could fathom was sounding the alarm bells of private initiative even louder. The response to this recession was unlike that of previous ones. This time, there were no counter-cyclical efforts to reinforce public intervention in the housing market. On the contrary, successive housing plans re-packaged price-controlled housing as a form of means-tested welfare, formally relegating it to a 'safety net' function (López & Rodríguez, 2010:278-9). The further marginalisation of price-controlled housing was a result of European prescriptions in housing matters in the context of the deficit restrictions imposed by the Stability Pact of 1992. This consolidated the dominance of unregulated housing and acted as a precondition for the inflation of a much more

⁵¹ In addition, the state also stimulated the construction of price-controlled housing by facilitating access to credit for property developers. To do so, the state mobilised public finance and formed partnerships with private financial institutions to ensure that developers would receive credits at below market levels (Blasco, 1993:295). These measures kept home construction afloat in the first half of the 1980s, when price-controlled dwellings came to amount to 70% of all newly built stock. Yet these results were purely palliative: in absolute terms, this form of residential provision had entered a phase of terminal decline (see above Fig.11).

virulent bubble only a few years later, as it generalised the potential for house-price increases.

The new bubble arrived when the land market was 'liberalised' in 1997, in line with the supply-side prescriptions of neoliberal urban planners: the so-called build-anywhere law (see chapter 4). The reform succeeded in fostering the construction of six million homes in a mere decade, an astonishing feat that was buttressed by continued tax breaks to property.

5.1.2. 'A Country of Proprietors, Not Proletarians'

If the previous section has provided an overview of the material pressures shaping the residential apparatus in the second half of the twentieth century, the next step is to examine the parallel emergence of homeownership as a basic cultural expectation. The origins of this process hark back to the destruction of the rental market in the 1950s, with the extension of brick-and-mortar subsidies to property developers (see chapter 4). The main reason for this were the highly paternalistic rent policies of the dictatorship, which discouraged real-estate developers from investing in build-to-rent projects (Bertrán, 2002:30-32). Existing legislation fixed rent prices at a certain proportion of the tenant's income and forced landowners into perpetual rolling contracts that were to remain in force as long as their tenants wished to remain in the property. Moreover, the state dictated the complete freezing of rent prices between 1946-1964, and even after that only allowed landlords to adjust rents to inflation. Thus, even though construction subsidies were available irrespective of whether dwellings were built for rent or sale, developers found it much more lucrative to focus on build-to-sell operations only. The differential profitability of build-to-sell operations was such that urban landlords began to let their rented properties decay in order to get them filed as 'ruinous' – a pretext that enabled them to evict their tenants for safety reasons – only to knock down the building and redevelop the plot with flats for sale (Naredo, 2010).⁵² Policy-makers were well aware of the everyday displacement of rent tenure for owner-occupation and actively encouraged the process, realising that build-to-sell operations offered developers the incentives of higher returns and a faster

⁵² According to Naredo (2010), this practice is the reason why there remain less buildings dating prior to 1940 in Spain, a non-belligerent in World War II, than in Germany. It is also noteworthy that only 8% of the housing stock was destroyed in the Spanish Civil War (Pollard, 2008:178).

amortisation of their capital investments (Bertrán, 2002:32-34).⁵³ Fostering residential product at all costs was of utmost priority.

This process was assisted by discourses exalting the value of homeownership from the 1950s, a process that needs to be situated within the context of the horizontal class struggles unfolding at the heart of the Francoist bureaucracy. As previously discussed in chapters 3 and 4, at the time two political factions within the dictatorship were engaged in a turf war over the levers of the state: falangists vs. technocrats. The falangists, the fascist old guard, were pushed out of key government positions in 1957, but as a consolation prize were given control of a new government agency: the Ministry for Housing with, at its helm, José Luis Arrese. A major falangist ideologue, Arrese promptly mobilised housing policy to promote the cause of his faction (Naredo, 2010; Bertrán, 2002:34-36). It was under his command that the Ministry devised the previously discussed policy of construction subsidies, a measure that was highly successful in stimulating residential construction but that contradicted the purported 'social' character of falangism, as it surrendered housing to the profit motive of property developers. Indeed, this policy came under criticism for benefitting the middle classes the most. Even though the subsidies applied to the construction of all price-controlled housing units regardless of size, real-estate developers began to focus on building larger properties geared at wealthier buyers, as the state's price-controls reserved higher price caps for these dwellings, making them more cost-effective to build and to sell (Pedro, 2001:207-212). These measures, then, appeared to be a volte-face of the dictatorship on its populist priorities.

It was in this political context that Arrese repackaged his housing policies around the vision for a property-owning autocracy: 'we want a country of proprietors, not proletarians' (Arrese quoted in Naredo, 2010). His idea was that the commitments of homeownership would discipline a population of orderly subjects: 'man, without a home of his own, takes to the streets and, driven by his mood, becomes subversive, sour, violent' (Arrese quoted in *ibid.*). As the regime's propaganda assured the populace that subsidised housing had 'arrived to abolish the labyrinth of social classes', public discourses presented the acquisition of a home as a chance for the working classes to acquire a stake in the system: 'the home is the primary enterprise that the family requires to cease being rabble and become a people' (Arrese in NO-DO, 1958). At an everyday level, Arrese's message tapped into rurally-grown associations of

⁵³ A similar logic had already been applied in the 1930s by the Italian fascists, a perennial source of inspiration for the Spanish falangists (Aalbers & Feliciano, 2017).

property ownership with family enterprise. As the rural migrants rushed to the cities, the promise of urban property became a metaphor for independent living that echoed the historical aspirations of rural communities: saving, self-reliance, and social reproduction via property ownership. It is noteworthy that, although in 1950 almost all urban dwellers were renters, statistics reflect that half of all Spaniards owned their homes due to the overwhelming concentration of owner-occupation in rural farming communities (Castles & Ferrera, 1996).

The discourse of the property-owning autocracy was so successful that it outlived the falangists themselves. From the Finance Ministry, the technocrats sabotaged Arrese's projects by allocating insufficient funding until he was pushed out from his position in 1960 (Betrán, 2002:34-36). After his departure, the technocrats toned down the populist rhetoric in order to subordinate the residential apparatus to their industrial strategy. But the main parameters of housing policy would remain the same, for they were conducive toward keeping urban development in pace with industrialisation. The economic rationale of property-ownership was once again made explicit in a 1960 decree that regulated the rights and obligations of homeowners towards one another in blocks of flats ('horizontal property'):

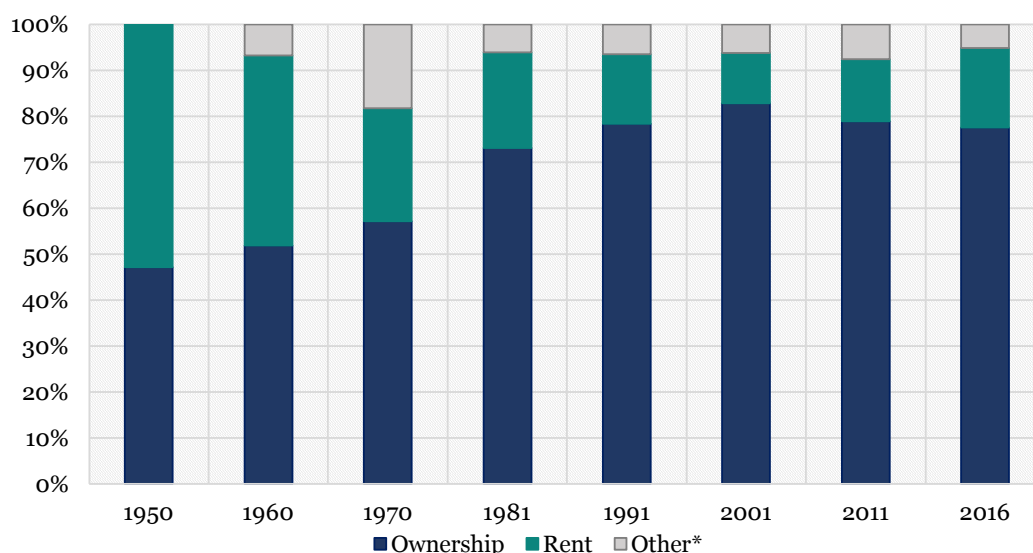
The essential reason for a system of horizontal property rests upon an attempt to extend the access to urban property [...] Measures geared towards the increase in construction combined with a well organised regime of property rights will address the housing question and its associated problems [...] Taking these one step further, the law seeks to maximise the individuation of property as much as possible [...].⁵⁴

Thus, the capitalist residential apparatus nurtured by the Francoist regime came with a large-scale shift in tenure towards homeownership between 1950-1980 (Fig.12). At the start of this period, 88% of households in Bilbao were rented, in Sevilla 90%, in Madrid 94%, and in Barcelona 95% (Naredo, 2010). By the end of it, Spain was the largest homeownership society in the OECD. In 1981, the general rate of owner-occupation stood at 73%, and second homes constituted 18% of the total housing stock (Tafunell, 2005:463). The drive for homeownership had become widely diffused and naturalised, 'like a lucky genetic code inscribed into our DNA that sets us apart from other mortals and determines our behaviour' (Colau & Alemany, 2012:33). An entire

⁵⁴ The document appears in the bibliography as *Ley 49/1960, de 21 de Julio, sobre propiedad horizontal* (1960) BOE-A-1960-10906.

generation was socialised on the view that it was the most sensible option to invest in a mortgage, for a home was the best ‘nest egg’ that could be passed on to future generations (rather than, say, an education or a small business). The infamous maxim ‘renting is throwing money away’ started to circulate, an everyday utterance that became elevated to the status of common knowledge.

FIG.12. EVOLUTION OF HOME TENURE (1950-2016)



Source: Instituto Nacional de Estadística; Tafunell (2005:493-494).

*Includes company housing (perquisites) and dwellings ceded without cost.

By the time the state started to perceive that the housing market was excessively skewed towards homeowners, it was too late. This process could not even be stopped by the liberalisation of the rental market by the Boyer Decree of 1985, a piece of legislation that abolished the rent controls that had been in force for almost five decades. With it, landowners gained the power to rescind tenancy agreements, rolling contracts ceased to be standard, and rent caps were lifted (Fernández, 2004:153-156). The rationale behind this measure was an attempt to correct the distortions that had been attracting developers into the higher returns of the property market since the 1950s. However, the result was just the opposite. In the absence of a public rental sector to keep the excesses of the market in check, tenants were generally pushed into precarious short-term agreements that had to be constantly renegotiated (Bertrán, 2002:50-51). In the context of the booming real-estate prices of the late 1980s, this translated into yearly rent hikes for tenants, a situation of insecurity that only accelerated the flight away from the rental market. As early as 1991, rent had already become confined to a mere 15% of the housing stock – a stark contrast with the 37% of Britain and the 58% of Germany. In 1994, rolling contracts were set to a minimum of

five years in order to give tenants more security and to turn renting into a more attractive option. This measure failed to breathe life into the rental market, as it avoided the central issue: rent prices had become excessively high (ibid.:52). Indeed, what was left of the rental sector after the Boyer Decree was, on the one hand, a large mass of tenants holding on to an old system of rent caps that was no longer available for new renters, and, on the other hand, a section of deregulated rents (already 20% by 1994) unaffordable to most (Fernández, 2004:155-159).

The result was an entrenchment of homeownership as an icon of economic success, independent living, and inter-generational justice, whereas renting became its inverse: a symbol of marginalisation and precarity. Indeed, by then rent was perceived to be the option for those with nowhere else to go, such as students or the urban poor. By the start of the great property bubble of 1997-8, all developers had to do was to tap into these deeply-held cultural perceptions to find a voracious demand for property.

5.2. The Spanish Economic Miracle: Property Brings Development

If the incubation of a housing system dominated by a culture of homeownership acted as a structural precondition for the bubble, this process was complemented by the parallel consolidation of *reckless urbanisation* as an icon of broad socioeconomic progress. Dating from the ‘economic miracle’ of the 1960s, when policies of fast industrial growth were tied to the necessity of a fast urbanisation, this association was successfully subverted by urban working-class activism during the 1970s. However, when European integration emerged as a new icon of socioeconomic progress in the 1980s, the inflation of housing bubbles under the symbolic authority of Europe served to reactivate the association of reckless urbanisation with growth and progress. With renewed talk of a ‘Spanish economic miracle’ after 2004, the iconisation of fast urban development as a short-hand for broad economic success was sealed by the widespread usage of property market indicators as a benchmark of macroeconomic prowess. Altogether, this history of intersubjective connections served to legitimate the excesses of the property market of the 2000s in the eyes of the public, something that facilitated their integration into the circuits of mass speculation.

5.2.1. First Advent: The Working Class Goes to Heaven

As discussed in previous chapters, between 1959-1973 Spain sustained rates of economic growth second in the world only to Japan's, a feat that Francoist propaganda celebrated as a '*Spanish economic miracle*' (Amodia et al., 1998). The forced march of Spanish industrialisation depended on the low wages of the workforce and on the 'leapfrog' effect created by recycling the obsolete equipment of more industrially-advanced Western European nations. Property development played a major role in this economic boom, for at least two reasons: (1) the urbanisation of the peasantry provided an immense reserve army of labour to keep wages down, and (2) the expansion of touristic infrastructure swelled foreign currency reserves and facilitated the import of industrial equipment (Charnock et al., 2013:35). Well aware of the interrelationship between urban and industrial growth, the architects of this economic project (i.e. the technocrats) formalised the marriage between housing and industrial policy in 1964, when oversight over the implementation of housing targets was placed under the purview of the main industrial planning agency, the *Comisaría para el Plan de Desarrollo* (see chapter 4) (Pedro, 2001:212). And thus, the industrial and housing policies of this period came to be known by the same name: '*desarrollismo*' (developmentalism).

This shared label encoded a process of 'indexation' (Konings, 2015:54-58). In bringing housing and industrial policy under a same common denominator, the notion of developmentalism forced an understanding of processes of urbanisation that used the terms of industrial development. This automatically conveyed a sense of their common rationale and subordinated housing issues to the needs of fast economic growth. The indexation of house production as a sign of economic bonanza was a discursive innovation of this period. The stimulant effects of home construction had been politically mobilised in the past, but only as a countercyclical measure to palliate the effects of unemployment.⁵⁵ By contrast, the rhetoric of developmentalism that crystallised in the 1960s came to relate reckless urbanisation with booming growth, and thus sought to legitimise its excesses through everyday discourse. This triumphalist ideology should be seen as a continuation of the social engineering projects of the previous decade. As a 1962 article in the conservative newspaper ABC put it: 'whenever we speak of an "economic miracle" we are in fact referring to a "social

⁵⁵ For example, the social housing projects of the 1920s and 1940s were launched with an explicit countercyclical purpose to combat unemployment (Pedro, 2001:195; 202).

miracle”: the people live better and communist lackeys decrease at a significant rate’ (Pemán, 1962)

However, a resurgent working-class activism, reborn after the mass strikes of 1956, responded negatively to the injunctions of this ideology. The revolutionary working-class movements of the interwar period had been obliterated during the Spanish Civil War and its aftermath. With the exception of some scattered guerrillas, who continued to fight against the new state until the late 1940s, the result was a disappearance of mass working-class activism until the mid-1950s, when a series of strikes restored the pre-war wage levels and marked the beginning of the end of falangist rule (Soler, 1969). Activism continued to proliferate under the façade of liberalisation of the 1960s, when the borders were opened up and censorship controls were relaxed. By the early 1970s, the worker’s commissions (*comisiones obreras*), a grassroots movement of factory councils, were acting as unofficial negotiating parties in industrial disputes and securing wage increases for the workforce (Soler, 1969). The struggle in the factories was flanked by a potent neighbourhood movement (*movimiento vecinal*) that pushed against the predations of property developers in urban peripheries. Developmentalism had resulted in the uncontrolled sprawl of cities, as poor-quality housing stretched into distant and poorly-connected industrial parks. Urban activists responded to these spatial grievances by demanding greater access to public services, infrastructure, and culture (Martínez, 2011). The implications of the demands posed a direct threat to the whole developmentalist strategy of accumulation.

The traction that these movements gained in this period demonstrates the failure of developmentalism to appease the working class with the promise of modernisation. A 1968 editorial by a local publication of the neighbourhood movement (*Can Oriach*) captures this moment of negation:

[Rural] migrants were asked to offer their strength and intelligence to move the machine of progress. Why then are they not the owners of what this progress has brought? If we have been generous in leaving [our homes] and in giving [our labour], then it is unfair that the same people who called us here are now so ungrateful towards us (quoted in *ibid.*:67).

Urban activism forced the regime’s propaganda into a defensive position. A 1972 documentary on urban development produced by the Ministry of Housing justified the excesses of the past whilst envisioning an imminent improvement of urban conditions:

The fast pace of industrialisation expected in the coming years will logically entail new internal displacements. New conceptions of housing and urban planning will be necessary [...] the question will no longer be to build thousands and thousands of homes, but to erect adequate neighbourhoods and to create integrated communities where Man can realise himself (NO-DO, 1972).

But the language of the resistance only became more defiant and articulate in its demands. The urban movement called for the instauration of democratic controls on urban planning decisions and for the municipalisation of land to avoid speculation. Not only did this challenge the policy of developmentalism, but also the authoritarian form of the state and the very logic of capitalist accumulation:

As long as the driving force of economic activity remains the accumulation [of capital] in fewer hands, the problems of housing and urban services shall remain unresolved. [...] It is evident that such a change in economic purpose implies a new form of social and economic organisation in which decision power lies solely with the workers (quoted in Martínez, 2011:72).

State propaganda had turned property development into an icon that condensed the social relations of the Francoist order, encoding in it a chain of signifiers that ultimately sought to justify the present state of affairs (e.g. sacrifice, order, progress). The resistance mounted by the neighbourhood movement tapped into these cultural associations, but only to subvert their code. The demand for better housing conditions was mediated into a revolutionary movement against the dictatorship and its economic system. It must be noted that this process of radicalisation occurred in a context of savage political repression. After the declaration of the state of exception in 1969, the dictatorship launched a new (and final) wave of state terrorism in an attempt to contain the pressure building in the streets (Soler, 1969). This shows the powerful lure exerted by this counter-narrative amongst those who felt short-changed by the promise of developmentalism. Indeed, despite articulating such an explicit workerist and anti-capitalist discourse, the social base of the neighbourhood movement was quite broad, including activists from diverse backgrounds (housewives, pensioners, shopkeepers) and organisations (consumer organisations, youth organisations, cultural institutions, sports clubs) (De Terán, 1993:347).

This resistance achieved long-lasting successes at the critical juncture of the late 1970s. While the Francoist dictatorship crumbled on the streets, the dictator himself died in his bed in 1975, an event that opened up the floodgates of political change. As the country quickly transitioned into a liberal democracy, an energised neighbourhood movement succeeded in having some of their radical demands institutionalised in the structures of the new state. Beyond a symbolic commitment to the right of all Spaniards to a 'dignified and suitable home' (art.47), the Constitution of 1978 created a highly decentralised state in which vast powers over urban planning decisions were devolved to democratically-elected local governments. Municipalities also gained the power to tax land away from urban developers in order to put it to use in public housing projects. Urban questions were a burning political issue during the first municipal elections of 1979, largely won by candidates that incorporated the demands of the neighbourhood movement into their programmes (Martínez, 2011:87). Between 1978-1980, urban activists began to work closely with urban planning agencies to secure the redevelopment of shanty towns, the rehabilitation of public housing, and the preservation of historic city centres (Neuman, 2010:113). The legacy of their activism left a lasting imprint on the carefully planned urbanism of the 1980s.

5.2.2. Second Coming: The Symbolic Authority of Europe

The transition to democracy was followed by a loss in the vitality of working-class activism. Not only did the fall of fascism deprive the worker's movement of a clear enemy to cohesion around, but its sources of militancy ran up against their own contradictions. On the one hand, the neighbourhood movement, hitherto based on securing demands from the state, ceased to be an autonomous political force when its grassroots energies were channelled into state structures, where they gradually dissolved (De Terán, 1993:347). On the other hand, factory activism met an important strategic defeat when the first left-wing party in power in forty years, the social-democratic *Partido Socialista* (PSOE), proceeded to enforce draconian de-industrialisation and liberalisation policies throughout the 1980s.

The enforcers of the post-industrial transition proceeded to reformulate the idea of economic progress – hitherto associated with industrialisation – around the milestone of European integration. The idea of converging with the mainstream nations of the continent was cherished by the Spanish populace. The exclusion of fascist Spain from the league of European democracies had long symbolised the country's backwardness. The indexation of Europe as a standard of socioeconomic advance was already present

in the discourse of the urban movement of the 1970s: ‘we paid for [this city] with our days of work and our very *non-European* salaries [...]’ (Martínez, 2011:67, emphasis added). In the 1980s, PSOE’s electoral strategy capitalised upon this association in order to galvanise the broad popular desire to depart from fascist obscurantism. Europeanisation became the benchmark of this departure, enabling the government to frame policies, however unpopular, as a necessary sacrifice to achieve this objective. Thus, PSOE’s strategists built a chain of associations that linked the transcendence of fascism to their own party’s success, all mediated by the objective of getting Spain into the European Economic Community. At the time, these connections were often spelt out by high-ranking PSOE members. The party’s Secretary General put it this way in 1985:

Despite criticism [...] the socialist project enjoys an unspoilt consensus in public opinion. [...] large masses of voters perceive the message of modernisation and regeneration in the policy of European integration, industrial reconversion, welfare reform, and devolution (Benegas, 1985).

The socialists’ delivered on their promise in 1986, when European membership came into force and was immediately followed by a funnelling of capital investment into the real-estate sector. Completing this cathartic moment of international recognition, that same year Barcelona was selected to host the Olympic Games of 1992. Indeed, the political capital of having presided over this transition allowed PSOE to stay in power until the mid-1990s, despite the recession of this period (i.e. ERM crisis) and the relentless corruption scandals besieging the party (see chapter 3).

As the indexation of European integration and economic progress continued uncontested, a process of ‘semiotic reversal’ kicked in (Konings, 2015:58). Europeanisation ceased to be a mediating link within a broader chain of signifiers that justified a particular path toward economic progress, and instead became an end in itself, a mandatory reference for the Spanish political imaginary. Given the increasingly neoliberal bent of the European project, this became a lasting self-inflicted wound for the Left. To lay the groundwork for monetary integration, the Maastricht Treaty of 1992 stipulated a number of ‘convergence criteria’ for prospective members of the currency union, including a cap on public deficits and strict inflation controls (Navarro et al., 2012). When the neoliberal conservatives of PP rose to power in 1996, they gladly embraced these commitments and proceeded to engage in a frenzied privatisation of state assets between 1997-9 in order to lower the deficit and

secure Spain's entry into the Eurozone (Tudela, 2015). This brought Spain into the Eurozone against all odds, given that to navigate the recession of the 90s the previous government had broken the Maastricht criteria by engaging in successive currency devaluations. Entry into the Eurozone was celebrated as a milestone of economic 'modernisation', a process accompanied by booming growth driven by renewed investment in Spanish real estate.

The legitimisation of these processes was assisted by the validation received from the international press. In a much-commented piece, the American magazine *Newsweek* celebrated the arrival of a 'Spanish economic miracle' under the auspices of PP's neoliberal reformers (McGuire & Radcliffe, 2004). The American magazine highlighted the country's successful process of European convergence after a series of privatisations and liberalisations:

it's no wonder Spaniards these days are the most optimistic consumers on the Continent, according to surveys. [...] Attracted to this new Spain, expats are returning and, perhaps more tellingly, other Europeans are seeing their neighbour in a new light. [...] Spain is the new princely peacock, after being looked down on by the northern Europeans as a poor Mediterranean country.

Perhaps unbeknownst to them, *Newsweek* had summoned the spectre of Francoist developmentalism. The article was widely echoed by the conservative media, who mobilised the discourse with revanchist undertones. The first right-wing government since the fall of the dictatorship – headed by a party founded by Franco's ministers – had supposedly come to save the economy from a long, failed left-wing experiment (Estefanía, 2013). But when a new PSOE administration from 2004 picked up the baton of PP's neoliberal policies, the metaphor was adopted by media outlets aligned with the centre-left. For example, a 2007 analysis in the newspaper *El País*, the spiritual guide of the social-democratic electorate, celebrated Spain's economic success within the European Union under the title 'The Spanish Economic Miracle' (Missé, 2007).

In the context of this neoliberal consensus, the idea of a 'second coming' of the Spanish miracle tapped into a cultural memory of immense symbolic power. After all, the comparison with the 1960s was not that far-fetched. At the centre of the growth of the 2000s was an extremely buoyant property market devouring the Mediterranean coastline as well as 50% new job posts to cater for a reinvigorated residential apparatus

(Von Zeschau, 2011). The 'old' developmentalism justified the sacrifices of precarity and reckless urbanisation with the promise of economic progress; an idea that lost its lure when it became evident that such progress would not be shared amongst those who had sacrificed the most. The 'new' developmentalism entailed a similar trade-off. However, its appeal was much stronger as it managed to deliver on its promises through the magic of financialisation. Even as wages went down, the homeownership majority was seemingly getting richer (see below). In short, the result was a 'reactivation' of the old cultural associations binding together property, development, and property development.

It was also no small detail that this 'miracle' came through the Euro, as the symbolic authority of Europe conferred veracity on its 'miraculous' effects. Pro-European sentiments ran high in this period: in 2004, 69% of Spaniards believed to have benefited from EU membership (Eurobarometer, 2004). For most, the cost of European convergence (de-industrialisation, privatisations, liberalisations, etc.) had seemingly paid off – Spain had left fascist backwardness behind to join the first rank of European nations. However, if in the 1980s the idea of European integration had to be justified with promises of modernisation and regeneration, by the 2000s, the idea of Europeanisation had become an authoritative source of meaning in itself. Herein lied the distinct power of the 'second coming': it reanimated an exhausted sign of economic progress – i.e. reckless urban development – with the power of the sign that had replaced it – i.e. Europeanisation.

Tapping into these home-grown affective connections, the speculative prowess of the housing market was restored as an icon of macroeconomic success. Real estate expos were encouraged by the visits of high ranking public officials, who referenced them as an indicator of the vitality of the economy, and the news media began to measure the economic prowess of Spain by the number of housing units built every quarter (e.g. Cabrales, 2006). In this triumphalist atmosphere, disturbing the real-estate sector did not seem politically convenient. Miguel Sebastián, a prominent minister during the PSOE years of the bubble, would later admit the difficulty of 'stopping the music in the middle of the party', as it would have 'triggered an enormous reaction'. After all, 'the people were happy' (quoted in El Mundo, 2015).

5.3. ‘Home Prices Never Go Down’: A House-Price Keynesianism

The previous two parts have shown how in the decades preceding the bubble Spain developed a layered terrain of discourses and practices that would make its housing system *prone* to the processes of mass property speculation during the 2000s. The purpose of this final part is to move beyond these enabling conditions to show how the integration of everyday homeowners into the circuits of financial speculation actually happened. Without delving too deep into the financial techniques that made this possible (a theme reserved for the next chapter), it will be shown how the defeat of the working-class movement of the 1970s pushed many homeowners – by then the vast majority of Spaniards – to rely on the rising value of their homes to compensate for the fall in their wages. The examination of this process, described here as a form of ‘semi-proletarianisation’, will be followed by an analysis of the channels through which the public was educated in the values of risk, debt, and property speculation. This will culminate in an examination of how, and when, the state began to encourage mass property speculation as a means of demand-management, what Watson (2010) refers to as ‘house-price Keynesianism’. Altogether it will show how, if only temporarily, rising home values became an icon of personal wealth and macroeconomic stability, further magnifying the effects of the bubble.

5.3.1. Leveraged Investors: The Semi-Proletarianisation of Homeowners

The fragile political balance that followed the death of Franco created a power vacuum around an ever-intensifying class struggle. As the crisis of stagflation struck, mass unemployment resurged with the first wave of factory lockouts in 1975. An energised worker’s movement responded with a dramatic escalation in the number of strikes: in 1976 alone 110 million working hours were lost to industrial action (Rodríguez, 2015:34). The problem of inflation – which soared from 8% in 1973 to 28% in 1977 – was tackled in the ‘Moncloa Pacts’ of 1977 (datosmacro.com). With the backing of the main political parties and trade unions, wage increases were pegged to inflation, which by 1980 had been successfully brought down to 15% (López & Rodríguez, 2010:149-154). By contrast, large-scale reform to redress the problem of industrial stagnation would have to wait until the 1980s. This process would happen under the deindustrialisation policies of the Socialist Worker’s Party (PSOE), which in 1982 achieved the first of three successive landslide victories. In 1984, the first PSOE administration introduced a first plan of industrial restructuring that envisioned the redundancy of 72,500 workers (Marín, 2006:64). Under the pressure of the

negotiations for joining the European single market, the competitive steel industry of Sagunto (Valencia) was dismantled, an event that had a negative knock-on effect on the profitability of manufacturing elsewhere in the country. By 1985, 20% of the workforce was unemployed.

Equipped with the rhetoric of European modernisation, successive administrations headed by PSOE's Felipe González traced Spain's paradoxical path to the neoliberal age. On the one hand, PSOE governments dramatically expanded an underfunded welfare state. Under the pressure of four general strikes at the turn of the 1990s, social spending increased from 15% of GDP in 1975 to 24% in 1993 (Navarro et al., 2012:107). On the other hand, González's government pushed an agenda of wage repression and privatisation, and over time became less apologetic about their neoliberal drift. In 1985, the introduction of a regressive value-added tax was accompanied by a wave of market liberalisations (the 'Boyer Decree'). Shortly after, state assets began to be sold off. Large public companies in a broad range of industries (automobiles, steel, shipbuilding, energy, transport, telecoms, banks) were gradually privatised over the coming decade (Carreras et al., 2000:225-236). Many of these companies were purchased as part of the massive entry of foreign direct investment following Spain's access to the single market, a process that also inflated a housing bubble. With the bubble came real-wage increases and buoyant levels of GDP growth (5% between 1987-1990) (datosmacro.com). The underside, however, was a normalisation of high levels of unemployment (15%-19%) and increasingly unaffordable housing costs.

This sealed the strategic defeat of the counter-narrative of the worker's movement, not least because such an aggressive programme of de-industrialisation was pursued by a nominally left-wing and working-class party. The combined cultural effect of these developments was the everyday entrenchment of what Fisher (2009:2) has called 'capitalist realism', the widespread feeling that capitalism is the only viable and imaginable economic system. The defeat of the working-class offensive was followed by a generalised political disenfranchisement (*'desencanto'*), particularly amongst the youth; a process accompanied by cultural trends that turned apathy and individualism into an aesthetic (*'pasotismo'*). This resulted in the disintegration of the working class as a self-conscious political subject, giving way to symbolic distinctions between the employed and the unemployed; between public employees and private wage-earners; between the employees of large companies and the precarised workers of smaller productive units; between wealthier gentrifiers and the urban poor (López & Rodríguez, 2010:154). At the same time, the long crisis of the 1970s had seemingly

come to an end with the inflation of a real-estate bubble, which reasserted the meaning of housing as an index of macroeconomic performance.

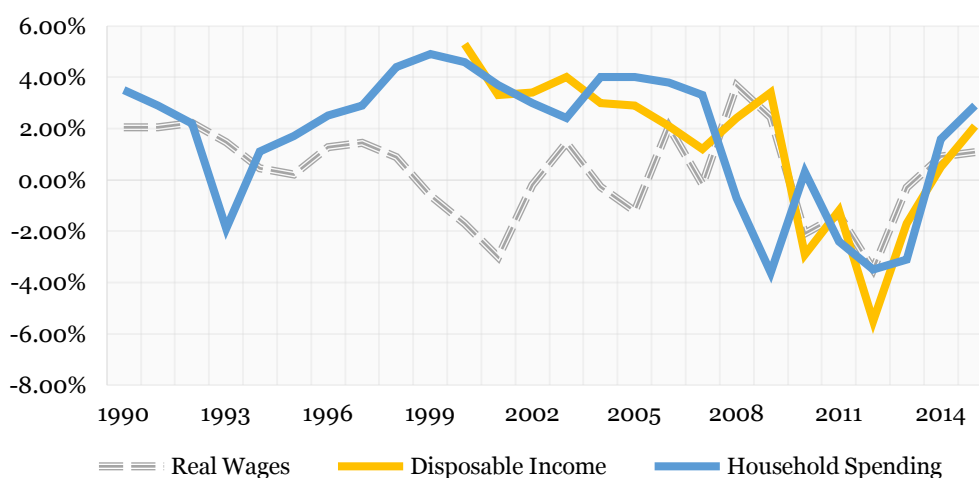
With the disarticulation of radical alternatives, the neoliberal consensus deepened in subsequent decades. After PSOE lost their parliamentary majority in 1993, the last González administration was forced into a confidence and supply agreement with the Catalan liberals of *Convergència i Unió* (CiU) (see chapter 3). Pressed by these parliamentary allies, the government opted for meeting the demands of the Maastricht Treaty to curtail the public deficit by lowering social spending rather than by raising taxes (Navarro et al., 2012:108). On top of that, in 1994 the government tackled the effects of the ERM crisis with an aggressive labour market reform that facilitated redundancy and undermined collective bargaining mechanisms (El País, 2010). Felipe González's long rule came to an end in the general election of 1996, which saw the openly neoliberal *People's Party* (PP), headed by the conservative José María Aznar, win. At first, the conservatives attempted to stop the unpopular social spending cuts of their predecessors, presenting a centrist image of themselves that helped them secure a landslide re-election in 2000 (Tudela, 2015). However, once firmly in control of parliament, they proceeded to slash social spending in half and to pass an aggressive labour reform by decree. The return of PSOE to power in 2004 under the leadership of José Luis Rodríguez Zapatero gradually restored social spending, but it refocused the agenda of the parliamentary left around 'post-material' struggles (e.g. LGBT rights) whilst side-lining labour issues.

The inflation of a massive real-estate bubble in these years was accompanied by a relentless deterioration of work. Real wage stagnation and temporary work became the norm. Even at the height of the boom, Spain sustained rates of unemployment of 8-10% due to the fast rotation of insecure contracts rather than structural unemployment as such (López & Rodríguez, 2011b). The expansion of the construction industry, which doubled in size in this period, extended its traditional precarity to the large number of wage-earners that joined its ranks, particularly to a large number of foreign migrants. The occupations that experienced the worst decline in working conditions were in the hospitality and care industries, the latter of which became almost completely dominated by female migrants. A new term gained currency: '*mileurista*', the 'thousand-euro earner', in reference to a growing precariat amongst the university-educated (Jiménez, 2005). For first-time buyers amongst this group, the increase in house prices became a major source of worry. If in 1996 the average cost of a home equalled four years of an average household's disposable income, by 2007 this had

increased to 7.7 years of a household's *total income*: a figure that implies dedicating an expenditure 30% above disposable income to 40 years of mortgage repayments (López & Rodríguez, 2010:415-6).

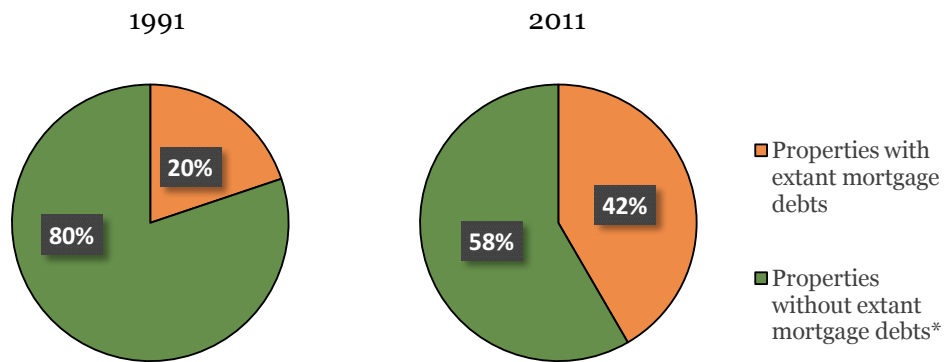
However, for those wage-earners who already owned property, the decline in real wages was compensated by an unexpected process of *semi-proletarianisation*, as the growing value of their property became a source of disposable income. This paradox stemmed from a combination of new financial technologies and an abundance of cheap credit, allowing large swathes of the population to borrow against their most valuable asset – their homes. This growing financial power was magnified by booming property prices, which allowed expectations of future price increases to be turned into everyday consumer credit. Thus, household debt doubled in only a few years: from 80% of a household's net disposable income in 2000, to nearly 160% in 2007 (OECD). This generated a paradoxical 'wealth effect', by which vast swathes of the workforce saw their purchasing power increase even as their wage earnings declined (Fig.13). In 2007, the nominal wealth of Spanish households reached the heights of €8 trillion, a threefold increase since 1990 (López & Rodríguez, 2010:246-7). This was a process of 'semi-proletarianisation' because large sections of wage-earners no longer relied solely on the sale of their labour-power for survival, but rather were turning to their property as a means of producing value. Given the widespread extension of homeownership in Spanish society, the opportunity to jump on this upward spiral of asset-price speculation was open to the vast majority of Spaniards. The underside of this process, however, was a sharp contraction of household savings (from 6.7% of disposable income in 2003 to -1% in 2007) (Fig.15).

FIG.13. ANNUAL GROWTH IN HOUSEHOLD INCOME, SPENDING, & REAL WAGES



Source: INE, OECD.

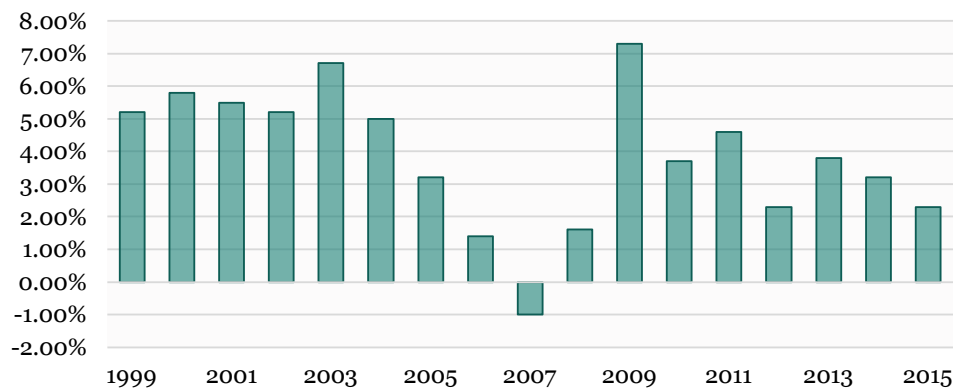
FIG.14. INDEBTED HOMEOWNERS: 1990 VS. 2011



Source: Instituto Nacional de Estadística

*Note: includes properties purchased, inherited, or ceded.

FIG.15. GROWTH IN HOUSEHOLD SAVINGS (% OF DISPOSABLE INCOME)



Source: OECD

5.3.2. Mass Speculation: Learn to Stop Worrying and Love the Bubble

The new dynamic tapped into long-held cultural associations of property as a durable investment. If renting was already deemed a waste of money, this perception was certainly reinforced by a new capacity to mine one's property for consumer credit. However, the homeowner culture that emerged between 1950-1980 privileged safety – a home was an investment to be passed on to the next generation as a 'nest egg'. The problem, thus, was the socialisation of debt and risk into the consciousness of everyday investors. In short, the success of financialisation depended on spreading idea that high home prices were not a problem, but a market opportunity. The integration of semi-proletarian homeowners into a class – i.e. into a collective subject with a shared conscious interest – required a complex process of social construction to align their

identities and desires with the ongoing processes of real-estate speculation. This entailed a normalisation of mortgage-backed debt, as well as a dissemination of the idea that, in the event that they would no longer be able to meet their loan repayments, they could always count on selling their home to pay off their debts. Provided that property prices rose high enough, they could even sell their home equity at a higher price than they originally paid for it, making a substantial profit in the process. And thus, with the promise to become 'leveraged investors' (Langley, 2009), vast swathes of the workforce were invited to stop worrying about high home prices and love the bubble.

Financial institutions and real-estate firms acted as effective capillaries to diffuse this message. In a series of post-crisis interviews with evicted homeowners, García-Lamarca and Kaika (2016:318-9) record that '[w]hile many heard that renting was "throwing money away", half-a-dozen mortgage-affected informants recounted the words of estate agents or bankers explaining why indebteding oneself was the most sensible option'. As I will discuss in the next chapter, under the spell of mortgage securitisation, credit institutions felt compelled to generate as much debt as possible, particularly the savings banks (*cajas de ahorros*), then the largest mortgage-lending actors in the country. The *cajas* grew deep roots in local communities and built their business on long-term relations of trust with their customers, which they mobilised to normalise the risks of financialisation. From 2003, it was not uncommon for financial institutions to push onto their customers mortgages at 100-120% of the property's purchasing price, all the while encouraging them to use the excess credit as consumer finance to buy a new car or television (ibid.). This practice came attached with all sorts of abuses: mortgages were often cross-collateralised with the guarantee of several friends and relatives (who fictitiously appeared as co-owners of the property). This allowed financial institutions to clear their books so that the Bank of Spain's regulators would not meddle with the operation. The lenders did not hesitate to exploit their customers' lack of financial literacy, providing them with highly asymmetric information while loading the agreements with hidden costs or pointless insurance requirements (Pisarello & Asensi, 2009).

The rise of real-estate expos was also instrumental in shaping the market expectations of everyday buyers. Real-estate expos are gigantic marketplaces where real-estate firms exhibit their produce and are geared towards everyday buyers as much as towards investors aiming to purchase property wholesale. These monumental gatherings started off with the unexpected success of Barcelona Meeting Point (BMP)

in 1996, which, contrary to what the organisers had anticipated, attracted a large amount of everyday buyers (Lamelas, 2013). As the housing market boomed shortly after, similar expos were set up in Madrid (SIMA, from 1998) and in Valencia (Urbe, from 2001). The size of these events cannot be underestimated: in 2006 alone, BMP attracted 200,000 visitors, SIMA 150,000, and Urbe 45,000 (El País, 2006; Interempresas.net, 2006; Tucasa.com, 2006). The combined number of visitors equalled half the output of residential production that year. This is significant given that a star product of these events were 'blueprint purchases' of homes yet to be built. Overall, these big events acted as formidable sites of ideological interpellation, as they offered everyday buyers professional advice on home investments and an assortment of options for mortgage-finance.

The success in educating the public on mass speculation can be tracked alongside a sea change in public discourses on the affordability of housing, when rising home prices went from being an economic problem to an icon of economic success. As discussed in the previous chapter, the housing bubble of the late 1980s turned the unaffordability of housing into a burning political issue: 'the acquisition of a home remains one of the vital concerns of any Spanish citizen or family, not only due to the scarcity of shelter available, but also due to the financial burden that [purchasing] a house involves' (El País, 1992). In 2002-2003, the affordability of housing remained a throwing weapon in parliamentary debates: the PSOE opposition showed alarm at the high levels of household debt while the PP government insisted that the problem of house prices would solve itself through an increase in property development (Expansión, 2002; El País, 2002). When the Bank of Spain first expressed its worry at the formation of a credit bubble in 2003, Luis de Guindos, at the time deputy Finance Minister, insisted that the current conjuncture was merely 'a rising trend in prices that will eventually moderate itself as more homes enter the rental market and more transparency is introduced in urban development procedures' (quoted in Gómez, 2003).

Yet something changed around 2004.⁵⁶ That year, the OECD forecasted a 'brutal collapse in [Spanish] house prices in the mid-term' (Cinco Días, 2004). The response was not one of celebration, but of denial. Real-estate pundits, financial advisors, and political figures across the political spectrum rushed in to insist that everyone should rest assured that home prices were going to stay high. In 2004, Gregorio Mayayo, the

⁵⁶ That being said, around 2005 polls continued to suggest that housing remained the second largest worry for Spaniards, only after unemployment. These worries, however, concentrated amongst the youth, 'the collective most disadvantaged by the elevated cost of property' (El País, 2005).

president of an association of the country's leading mortgage providers (AHE), responded to the OECD report with the assertion that it was 'metaphysically impossible' that home prices were on the verge of collapse, for that would imply 'an economic catastrophe of such proportions that it is envisioned by no one' (quoted in *ibid*). Two years later (2006), Guillermo Chicote, president of the real-estate developers' employer's association (APCE), boldly claimed that 'property prices are never going to go down' (quoted in *Expansión*, 2014). And, just as property prices were about to veer off the cliff in 2007, Fernando Martín, CEO of Martinsa-Fadesa, a real-estate giant who would default only a few months later, 'envisioned a vertiginous increase in home prices' (quoted in *ibid.*). Interestingly, the discursive turning point (2003-2004) matches the rapid collapse in net household savings (see Fig.15 above), suggesting a widespread extension of financialised practices amongst homeowners.

As rising house prices became an icon of macroeconomic success, the different scales of the state became heavily invested in encouraging the process of home-price inflation. The local scales of the state were the most directly invested in this process. As discussed in the previous chapters, the Spanish constitution devolved wide competences over housing and urban policy to the municipalities and to the newly established regional governments. The municipal devolution that the neighbourhood movement had so hardily fought for (and won) during the 1970s, including the transfer of urban planning powers and the right to exact taxes from urban development to local governments, was repurposed to further urban entrepreneurial strategies rather than to curtail speculation (see chapter 7). In a context of renewed faith in reckless urbanisation, local governments mobilised their powers to unleash vast processes of urban development. Although political economists have represented the increasing economic specialisation of cities in real-estate speculation as a consequence of the dearth of alternative income sources (e.g. Coq-Huelva, 2013:1223), a detailed report by *Fundación Alternativas* suggests that the financial dependence of municipalities upon the monetisation of the built environment was a self-imposed political choice (Fundación Alternativas, 2007:133-145). Throughout the bubble, it was common practice for municipalities to increase their taxation of construction projects and capital gains, while freezing the main municipal levy, the property tax (*Impuesto sobre Bienes Inmuebles* or IBI). To put it in electoral terms, local governments were building coalitions of homeowners.

Devolution was a convenient way for the central government to 'depoliticise' housing policy. The PSOE administration that presided over the peak of the bubble (2004-

2008), after having criticised the previous government's housing agenda from the opposition, deflected criticism by pointing to the responsibility of regional governments.⁵⁷ In reality, the role of the central state in inflating prices was important, even if more indirect than that of local councils. Despite the high degree of devolution over the built environment, the central state retained the power of determining the broad contours of a federal policy on these issues (a regulatory 'grammar' that each regional legislation must abide to), as well as crucial fiscal and financial regulations. Indeed, when the crash became evident in 2008, it was this government which rushed to approve a 45 billion€ plan to keep home values up. This measure included the state acting as a guarantor for home purchase, or as the purchaser of urban land directly from real-estate agents in order to keep land prices high (López & Rodríguez, 2010:398). Similarly, a series of measures were passed in 2009 to accelerate home reposessions with the explicit purpose of shoring up the housing market (Expansión, 2009).

5.4. Conclusion

This morning the *Plataforma de Afectados por la Hipoteca* [PAH] has stormed the real-estate expo Barcelona Meeting Point, and occupied the stand of Sareb – the bad bank – demanding to have a meeting with the bank's leaders. By midday, having completely shut down the event, they succeeded. [...] PAH demands that the bank's properties should become part of the public housing stock so they can be leased out as social housing (França & Català, 2013)

The meltdown of the Spanish property market in the wake of the crisis has blown up the ideological layering forming the Spanish housing imaginary, providing a remarkable opportunity to reshape cultural coordinates around housing issues. In this context, the activism of groups like PAH is invariably both material and discursive, as

⁵⁷ Long gone were the days of the 1990s, when the central state did not hesitate to overstep the competencies of the regional governments in these matters. As discussed in chapter 4, land-use planning legislation had sparked continuous jurisdictional conflicts in this decade. However, regional governments forgot their jurisdictional tensions with the central state too. Challenged by several regional governments, the first version of the 'build anywhere law' was struck down by the Constitutional Court in 1997. The revamped version of the law (1998) was again successfully challenged by regional governments: in 2001 the Constitutional Court struck down two important clauses of the law, rendering inoperative the important figure of the 'urbanising agent' (see chapter 4) (Expansión, 2001). Indeed, the Constitutional Court ruled that the only purpose of a national planning law was to only regulate 'the most basic guiding lines' of urban planning, leaving specifics to regional authorities' (El País, 2001). Ironically, by then many of these regional governments were in the process of introducing the figure of the urbanising agent in their own regional legislations. The regional governments were also highly complicit with the bubble through their negligent oversight over the *cajas de ahorros* and the urban plans of municipalities. See Marcinkoski (2016:68-70) for more details.

it not only demands better housing conditions, but also seeks to reshape the expectations of the public, bringing to the fore demands that have been unheard of for decades, such as a return to public housing. But these political agencies are in turn shaped by past traditions of struggle. In her book, Ada Colau, former spokeswoman of PAH and now mayor of Barcelona, argues that the success of her movement relied on 'conditioning the rules of the game and the parameters of debate', an insight which she describes as a major lesson from the neighbourhood movement of the 1970s (Colau & Alemany, 2012:162). The point is that the cultural meaning of housing is always in flux, shaped by political struggles over a terrain of engrained cultural meanings. The culture of mass speculation of the 2000s was no different in this regard. Rather than the logical subjectivity arising out of a homeownership society in the age of financialisation, it was the product of a lineage of cultural associations.

The matrix to this symbolic order was provided by the fast diffusion of homeownership between 1950-80. Originally a pragmatic response of the Francoist residential apparatus to the pressures of housing deficits, the dictatorship packaged the need to surrender urban development to the profit motive of property developers as a chance for working-class families to acquire a stake in the system through property ownership. To do so, the regime's propaganda tied homeownership to a sense of family enterprise and inter-generational justice, an association that successfully tapped into the rural values of a rapidly urbanising population. Thus, homeownership became the 'new normal' amongst urban social formations, reserving rent for a small section of the urban poor. At the same time, the resulting wave of urbanisation that accompanied these developments in the 1960s and 70s was associated to the 'economic miracle' of industrialisation and the promise of broad socioeconomic progress. However, the inability to deliver better working-class conditions was capitalised upon by a powerful neighbourhood movement in the 1970s, whose activism succeeded in subverting the association of reckless urbanisation with socioeconomic progress. With the defeat of the working-class movement in the 1980s, Europeanisation rose as a new icon of socioeconomic progress. When Eurozone finance served to inflate the bubble of the 2000s, the symbolic authority of Europe served to 'reactivate' reckless urbanisation as a sign of progress; a process that was sealed by renewed talk of a 'Spanish economic miracle'.

It was in this context, building upon these prior cultural associations, that house-price Keynesianism gained a broad base of social support. Housing, almost invariably held under ownership tenure, already appeared as a long-term family investment in the

cultural imaginary of Spaniards. Moreover, property development, and particularly in the form of reckless urbanisation, appeared as a driver of socioeconomic success sanctioned by Europe. Thus, it only was necessary to educate Spaniards in the virtues of indebtedness, risk, and mass speculation with rising house prices. The transmission of these values diffused through channels such as savings banks and real-estate expos, prompting a sea change in public attitudes towards rising house prices around 2004. It was only then that the political class began to openly speak of the need to keep prices high for the sake of macroeconomic stability, repackaging the old problem of unaffordable prices into a market opportunity for their electorates.

By showing how the Spanish housing bubble arose out of sedimented cultural developments, this chapter reinforces a central claim of the thesis: that the Spanish crash needs to be understood in the terms of *a particular apparatus of residential provision*, one shaped by a trail of political agencies that cuts across both material practices and immaterial discourses. This analysis speaks directly to the underlying research question of thesis: *Why did the Spanish path into the crisis manifest as two seemingly contradictory processes – as a house-price bubble and as a wave of residential overproduction?* Had it not been for a contingent history of intersubjective connections, it is unlikely that this peculiarity of the Spanish bubble would have found a suitable cultural environment to develop. This becomes visible through the lens of the *everyday*, the daily renegotiation of social structures, which is the dimension of the political that has figured most prominently in the narrative of this chapter.

The next chapter will explore in greater depth the financial dimensions of the Spanish residential apparatus, mapping their development alongside the patterns of political accumulation of every age.

6. The Conversion of the *Cajas*: A Genealogy of Finance

6.0. Introduction

After two years of illusory stability, the Spanish financial system began to crumble in 2009-10. Credit institutions began to implode one after the other, prompting a series of costly public bailouts that amounted to 5.8% of GDP (Martín-Aceña, 2014:92-95). Yet no major commercial bank experienced extreme losses or required state capitalisation (Quaglia & Royo, 2015:491). On the contrary, the resilience of the largest banks was ratified by the European ‘stress tests’ of 2010, all of which revealed them to be in a financial situation solid enough to absorb potential losses in the event of a worsening macroeconomic scenario (Poveda, 2012:261). The problem, rather, radiated out from the savings banks, the *cajas de ahorro*, which constituted almost half of the financial system. As discussed in chapter 1, the debacle of the savings banks is a favourite event of immaturity narrative scholars, who regularly invoked it to highlight the inherently distortive effect of ‘the political’ (specifically, party politics) in the economy. This argument centres around the complex stakeholder system of the *cajas*, which gave local and regional politicians control over their corporate governance, allowing ‘politicians to play bankers’, as the leader of the new neoliberal party *Ciudadanos* put it (quoted in Picas & Agustina, 2015). The problem with this narrative is that it cannot explain why ‘up until the current crisis the savings banks had achieved very satisfactory results’, nor why they ‘wrestled market share away from the banks, maintained high levels of profitability, and under[taken] significant amounts of community work’ (Vives, 2012:48). Moreover, unlike the savings banks of other countries, the *cajas de ahorros* successfully weathered the pressures of financial disintermediation from the 1980s onwards. Indeed, it is the historical record of the commercial banks that has been punctured by periodical financial crashes and scandals, whereas the meltdown of 2009-10 was the first (and last) major crisis of the *cajas* in the nearly two centuries of existence (Martín-Aceña, 2014).

This chapter analyses the relationship between political power and property finance which, despite mutations in line with changing patterns of political accumulation, has been the norm since the nineteenth century. It does so in order to disturb the immaturity narrative by doing away with the assumption that the political ‘distortions’ of the *cajas* were antithetical to their positive market performance. This new narrative ‘solves’ the paradox of why the *cajas de ahorros* were able to spearhead a successful

financial liberalisation and simultaneously act as a formidable instrument of political accumulation. For the sake of clarification, the term ‘liberalisation’ here does not mean the clearing of an institutional vacuum for markets to operate without restraint – to do so would fall into the trap of presuming that markets have a pre-political essence (Knafo, 2009). Rather, in this chapter, ‘liberalisation’ denotes an active process of institutional engineering, according to which a preceding system of statist finance was rewired to heighten competition between financial intermediaries. The notion of ‘political accumulation’, to recap from the discussion in chapters 2 and 3, refers to patterns of elite competition by non-commercial means (Brenner, 1985:236-46). In this chapter, political accumulation refers more specifically to the different ways in which the financial system has been used by different business or state elites for the purpose of furthering their interests; a pattern that has been historically immanent, rather than distortive, to the financial economy.

To make this argument, the chapter weaves a broad genealogy of financial institutions, including commercial and public banks, in order to enable the reader to cross-reference how political meddling has not been historically-unique to the *cajas*, but the norm in the financing of the Spanish residential apparatus. In doing so, the chapter addresses one of the central claims of the thesis: that *the patterns of political accumulation of the post-Franco political class were central to the boom and bust of the 2000s*. Indeed, the process of financial liberalisation furthered the objectives of the new elites after the fall of the dictatorship, who sought to displace the old Francoist bureaucracy from power, but also to inherit its clientelist grip over the real-estate market in order to gain competitive advantages in the electoral process. To capture this historical dynamic, this analysis deploys the historical institutionalist concept of ‘conversion’ (see chapter 2), which refers to the way in which old institutions are redeployed to perform new functions or purposes over time, generally reflecting the takeover of certain actors previously excluded from the ‘converted’ institution (Thelen & Streeck, 2005:26). Overall, the genealogical approach of this chapter means that the dimensions of the political that will figure most prominently are those of ‘*layered struggle*’ – i.e. the crystallisation of historical struggles into lasting institutional outcomes – and ‘*social conflict*’ – i.e. the collective struggles between groups and classes over the shape of institutions.

This genealogy is divided into five sections: The first section (6.1) traces the foundations of modern financial institutions into the nineteenth century, tracing how *cajas* and a semi-public bank, the *Banco Hipotecario de España* (BHE), were

established to counter the reluctance of commercial banks to engage in mortgage lending. Reflecting the politics of the age, this financial system was heavily skewed towards the interests of large landowners. The second section (6.2) explores how the Francoist regime built a heavily statist financial system in response to the problems of the previous age, establishing public banks and commanding financial institutions as to where to direct their investments. However, rather than tackling the class power of financiers, this statist financial system merely redirected it through the opaque structures of the Francoist bureaucracy, where the best-connected private banks were able to concentrate commercial success.

The third section (6.3) shows how the conversion of the *cajas* came as a response to the crumbling of the dictatorship and its financial system. The 'liberalisation' brought on a dismantling of public banks and the intensification of competition between commercial banks and *cajas*, all to 'update' the Spanish economy to European standards. Parallel to this process was a 'politicisation' of the *cajas* to turn them into a support of the new federal democratic state, a process that transformed them into instruments of political accumulation for political parties in the new liberal democracy. The fourth section (6.4) shows how the newly-politicised *cajas* were the great winners of the process of liberalisation, outcompeting the banks in the credit market and pushing them outward to foreign markets. The fifth section (6.5) reveals the source of the *cajas*' competitiveness: their specialisation in business segments tied to real estate (i.e. construction, real-estate services, mortgage credit, etc.), from where they financed the urban entrepreneurial strategies of cities and regions. Thus, the *cajas* bound their fate to the fortunes of the property market. While the real-estate markets boomed, the *cajas* were the cutting edge of Spanish finance. When real-estate markets crashed, they suffered accordingly.

6.1. The Origins of Modern Credit

The origins of modern credit institutions are deeply intertwined with the advent of liberal social-property relations in the nineteenth century, and in many ways their rise reflects the contradictions at the heart of this order. On the one hand, new credit institutions performed an important function in the liberal property apparatus, facilitating access to property ownership through the diffusion of mortgage credit. On the other hand, the patterns of class domination of this period ensured that the resulting financial system would be skewed in favour of large proprietors, who used it

as a means of political accumulation at the expense of small peasants and the urban poor.

The savings banks (*cajas de ahorro*) were established in 1835 in the midst of the transition out of feudalism, when the abolition of the seigneuries and the auctioning of aristocratic estates made the dissemination of credit amongst prospective landholders necessary (Tello, 2001). In this sense, the provision of mortgage finance was fundamental to the creation of a peasant democracy, the original vision of the liberal hegemonic project. Their lending was expected to force down the extortive interest rates charged by traditional money-lenders, as 30% interest was common (Comín, 2012:147; Cabello et al., 1987). Originally, the *cajas* exerted their function outside of the public property apparatus. Tied to pre-modern Catholic pawn-lending institutions (*montes de piedad*), the savings banks could be freely established. Often, they were set up by philanthropists who saw themselves as performing an everyday moralising function. Their lending was to educate the poor about the virtues of saving and credit-worthiness. The creation of new *cajas* went largely unregulated until 1880, when they became officially designated as charities and placed under loose supervision by the state (Martín-Aceña et al., 2014:44). In any case, the *cajas* would remain small credit institutions, lending operations restricted to a small territorial radius (usually a city or a province). Their mortgage lending palliated the property problem, but could not fully address it.

The problem was further aggravated by the general aversion of commercial banks to engage in mortgage lending due to the high risks and long amortisation times (Orti, 1995). Instead, commercial banking developed in the second half of the nineteenth century around the practice of private note-issuing, which allowed banks to quickly raise capital by issuing banknotes as debt securities. This practice spread, like elsewhere in Europe, with the boom in railway investment in the 1860s (Sudrià, 2014:478-483). However, when it became evident that the original expectations of the profitability of the railroad had been overly optimistic, a series of bank runs prompted the collapse of half of the note-issuing banks within a few years. The worst banking crisis of the century to come, the crash of the 1860s extinguished the credit system in entire regions of the country. It would take until the turn of the twentieth century for the sector to recover. In 1874, the Bank of Spain assumed the monopoly of note-issuing operations, absorbing a number of faulty regional banks and creating a highly centralised financial system in the process (Martín-Aceña & Pons, 2005:648).

To expand the supply of available mortgage credit, the bank's practice of issuing debt securities to quickly raise capital was extended to mortgage-lending in 1871 (Orti, 1995). This would have likely incentivised commercial banks to engage in mortgage lending, as securitisation enabled a fast turnover on these investments. However, due to the wide distrust they inspired after the crash, the commercial banks themselves were excluded from issuing mortgage-backed securities. Instead, the practice was confined to the *Banco Hipotecario de España* ('Mortgage Bank of Spain', henceforth BHE) in 1875, a private institution that had been created only a few years earlier to palliate the scarcity of mortgage credit and to facilitate the construction of the new urban *ensanches* (Cabello et al., 1987). The BHE was granted a 99-year monopoly over the issuance of mortgage-backed securities, conferring it a highly privileged status. Indeed, issuing mortgage-backed securities allowed the BHE to quickly dominate the market, as these paper assets were very popular in the stock markets of Madrid and Paris.

The proximity of the BHE to state elites turned it into a powerful instrument of political accumulation. The provision of mortgage credit became highly stratified along class lines. Whereas the savings banks concentrated their lending amongst the working classes and peasantry, the BHE catered mostly to the financial needs of urban property developers and large farmers (Cabello et al., 1987). Though this facilitated the construction of new housing in the urban *ensanches* (the first borrower from the bank was the Marquis of Salamanca, the developer of the Madrid district of the same name, who had instigated the creation of the BHE himself), in the countryside it only aggravated the property problem. Small peasants outside of the reach of the local *caja* had to continue to borrow at extortionate rates from large landowners, who could cheaply finance their money-lending activities through the BHE.

By the turn of the twentieth century, the volatility of the commercial banks eroded the 'laissez-faire' values of the liberal nineteenth century and prompted a rise in financial regulations. The restrictions on the securities trade forced the commercial banks to turn to industrial lending, a risky specialisation that resulted in periodic crashes: 1881-1882, 1890, 1913, 1914, 1920 (Martín-Aceña et al., 2014:45-46). In 1913, the Bank of Spain assumed lender of last resort functions and in 1921 it began to exercise supervisory functions over the commercial banks' operations. That same year saw the creation of the Supreme Banking Council, an agency of corporate self-regulation that was entrusted with broad regulatory powers. It could set minimum capital requirements; set maximum rates for current accounts and deposits; establish the

proportionality between different items of the banks' balance sheets; or publish the banks' income statements. However, these regulations did not prevent the eruption of a new banking crisis in 1931, an event that caused widespread indignation in the already volatile political atmosphere of this decade. In parallel, the savings banks were also subject to increasing regulation. In 1926 they were granted a self-regulatory council of their own: the *Confederación Española de Cajas de Ahorros* (Martín-Aceña, 2014:86-89). In any case, the *cajas de ahorro* had a low-risk investment profile that focused on short-term small personal loans and mortgage credit for the local in their area. In a time of banking turbulence, depositors (correctly) perceived them as a safer choice for their savings. Even though the commercial banks still dominated the deposits market – their share fluctuated between 55-60% during the interwar period – the savings banks saw a steady increase in their share of deposits, from 12-13% in 1920 to 24% in 1934 (Comín, 2012:147). This also coincided with initiatives on the part of local authorities to promote of the establishment of new *cajas*. Consequently, between 1900-1935 the number of savings banks experienced a steep increase from 55 to 171 (Martín-Aceña, 2014:86).

This period also saw the expansion of publicly-managed finance or, as it came to be known later, 'official credit'. At first, these institutions were of a semi-public nature: though they were to remain privately capitalised, these finance providers were placed under the purview of public agencies, where they enjoyed a privileged status (García, 2014; Martín-Aceña, 2012:114). Usually, the state reserved the right to appoint their head executive, and in some cases other members of the board as well. Prior to the interwar period, the only institution of this semi-public nature was the Bank of Spain itself, but from the 1920s there was an outgrowth of credit institutions of this sort in order to channel investment toward industrial and agrarian ventures: e.g. *Banco de Crédito Industrial* (BCI, established in 1920), *Servicio Nacional de Crédito Agrícola* (SNCA, established in 1925).⁵⁸ A similar fate awaited the *Banco Hipotecario de España* (BHE), turned into a semi-public body when its executive board was 'nationalised' and placed under state control. By then, this bank was not only the largest mortgage provider in the country, but also the largest financial institution by a considerable margin, commanding a substantial political influence not least due to its close ties to the landowning elite. Fiercely protective of its cornered market over mortgage-backed securities, the BHE mobilised this influence time and time again to halt attempts to extend this practice to other institutions, which would have increased the supply of

⁵⁸ In addition to the semi-public banks mentioned, this included (García Ruiz, 2014): *Banco de Crédito Local*, *Banco Exterior*, *Caja Central de Crédito Pesquero y Marítimo*, and *Caja Postal*.

credit. Thus, the BHE blocked attempts to allow the SNCA (in 1925) and the *cajas de ahorro* (in 1933) to raise capital in securities markets, which would have served to disseminate mortgage credit amongst the rural and urban poor. As a result, the shortage of mortgage credit and the elitist skew of the Spanish financial system dragged on into the middle of the twentieth century.

6.2. The Rise and Fall of Statist Finance

The authoritarian regime that emerged after the Spanish Civil War was imbued with a rhetorical despise of urban elites, a populist rhetoric that extended its rage to the financial sector – often with antisemitic overtones.⁵⁹ The Francoist state did not hesitate to extend its grip over the financial industry in order to challenge liberal property, either by creating fully-public banks (i.e. both managed and capitalised by the state) or by commanding where private finance should direct its investments. However, rather than countering patterns of elite domination through finance, the new order merely redirected them through the structures of an opaque and arbitrary bureaucracy, where the banks with greater capacities for political accumulation (in this case, clientelist connections) were able to secure – and concentrate – commercial success.

In the immediate aftermath of the conflict (1939), a government dominated by falangists created a *command financial economy* to cater to the Francoist residential apparatus. The backbone of this system would be two new fully-public banks designed for the provision of housing finance: (1) the *Instituto de Crédito para la Reconstrucción Nacional*, a bank established to finance reconstruction projects as a supposed counterpoint to the ‘bastard’ (vested) interests underpinning the BHE; and (2) the *Instituto Nacional de Vivienda* (INV), an agency created for the purpose of drafting plans of housing provision, but which was also equipped with bank status and could finance building projects directly (García, 2014:164). Both public banks were equipped with the power to issue debt securities that commercial and savings banks were then forced to acquire (see below). In turn, the public banks used the capital raised to ensure the flow of cheap credit (and later, ‘brick and mortar’ subsidies) to sanctioned property developers, who in exchange agreed to sell homes at set prices (Blasco, 1993:262-270; Bertrán, 2002:36-38). Mortgage legislation of 1946 established a down payment of 20% and forced property developers to loan 30% of the

⁵⁹ The denunciation of ‘jewish and masonic financial capitalism’ figured prominently in Francoist propaganda during the Spanish Civil War (Domínguez, 2009:232).

value of the property to their buyers. The mortgage lending of credit institutions was capped at a 50% loan-to-value ratio.⁶⁰ Given the narrow market opportunities, the private commercial banks continued to stay away from the mortgage market throughout the Francoist period. Instead, mortgage lending functions continued to be dominated by the BHE (which retained its monopoly over the issuance of mortgage-backed securities) flanked by the operations of the savings banks.

Contrary to the original demands of the falangist grassroots, the new regime did not nationalise the private banks after the war. However, it did impose a ban on the establishment of new banking firms. The state consolidated its power over private finance with a battery of regulations in 1946. The public sector assumed wide regulatory powers over the banks, including the capacity to set maximum and minimum interest rates on deposits and loans; to set preferential rates for industrial sectors deemed of priority; to establish quantitative credit ceilings; and to impose heavy restrictions on long-term commercial loans (Martín-Aceña et al., 2014:53-60). Importantly, the state also received discretionary powers to determine whether banks could expand their branches or not. The savings banks saw their interest rates set and their operations highly restricted (Comín, 2012:149). They were also forced to invest most of their deposits in public debt bonds, which came to encompass 90% of their securities portfolios. Whatever was left was then funnelled to sectors that the state deemed of priority. This degree of state command turned the savings banks into semi-public financial institutions *de facto*.

Despite the ideological hostility of falangism towards the banks, the new financial system did not curtail the power of banking elites. On the contrary, strategies of political accumulation enabled well-connected banks to navigate an opaque and authoritarian bureaucracy. By resorting to clientelism, a small number of informally privileged firms concentrated the licences necessary to expand their branches (Harrison, 1993:88-69). At the same time, the credit restrictions imposed by the state guaranteed a crushing dominance of the largest firms in the financing of industry. This way, under the shell of an authoritarian state, a small number of banks grew at an unprecedented pace, quadrupling their profits over the course of the 1940s and 50s. Out of this process emerged the oligopoly of the 'big five': *Banco de Bilbao*, *Banco de Vizcaya*, *Banco Hispano Americano*, *Banco Español de Crédito*, *Banco Central*. Conversely, the losers of this process were the savings banks. Their share of deposits

⁶⁰ For details, see *Decreto de 8 de febrero de 1946 por el que se aprueba la nueva redacción oficial de la Ley Hipotecaria* (1946) BOE-A-1946-2453.

fell and would not recover their pre-war rates until the 1960s (Martín-Aceña & Pons, 2005:657).

As the falangists lost their grip over the state in the 1960s, the development of statist finance accelerated in lockstep with the forced march of industrialisation commanded by their rivals: the technocrats. To support their developmentalist policies, the first fully technocratic government launched a major financial reform in 1962 to subordinate the banking sector to their plans for a French-style industrial *dirigisme*:

The setting in motion, in the near future, of a General Development Plan for the Spanish Economy requires a previous examination of the instruments at our disposal to carry out this momentous task. One of these instruments, perhaps the most valuable, is the banking system and public credit organisations.⁶¹

To this end, the majority of the semi-public banks were nationalised, including the Bank of Spain and the BHE (García, 2014).⁶² From this point forward, these institutions would be fully public, that is, not just managed by the state but also capitalised by the taxpayer. With regard to the commercial banks, there was a relaxation of legal barriers to entry, allowing the emergence of a new generation of smaller banks. After all, the technocrats, as discussed in earlier chapters, were less distrusting of ‘the market’ than their predecessors. That being said, branch restrictions as well as interest rate ceilings on deposits and loans continued to be subject to strict government controls (Martín-Aceña et al., 2014:114). The banks were also required to hold a certain proportion of government securities in their portfolios, a role previously reserved for the savings banks.⁶³ Shortly afterward, in 1964, both private banks and *cajas* became subject to ‘*industrial coefficients*’: mandatory investment quotas that forced them to channel a share of their resources towards the manufacturing sector (Comín, 2012:168). Even though the *cajas* were already subject to mandatory investment rates, the coefficients meant a dramatic loss of autonomy. They now lost control over the allocation of 80% of their deposits. Giving the *cajas* a more prominent

⁶¹ The quote is from the preamble of the following law: *Ley 2/1962, de 14 de abril, sobre bases de ordenación del crédito y de la Banca* (1962) BOE-A-1962-6692.

⁶² This also included most of the semi-public institutions created in the 1920s, such as the BCI. The only exceptions were the *Caja Postal* and *Banco de Exterior* (García, 2014).

⁶³ The 1962 Law also included a separation between ‘commercial’ and ‘industrial’ banks in an effort to protect everyday savers from risky industrial ventures (Faus, 2001:170; Harrison, 1993:70). The banks, however, frustrated this partition as they preferred to remain mixed. Both types of banking were often performed by divisions within the same conglomerate. The measure would be of little practical use and was eventually abolished in 1974.

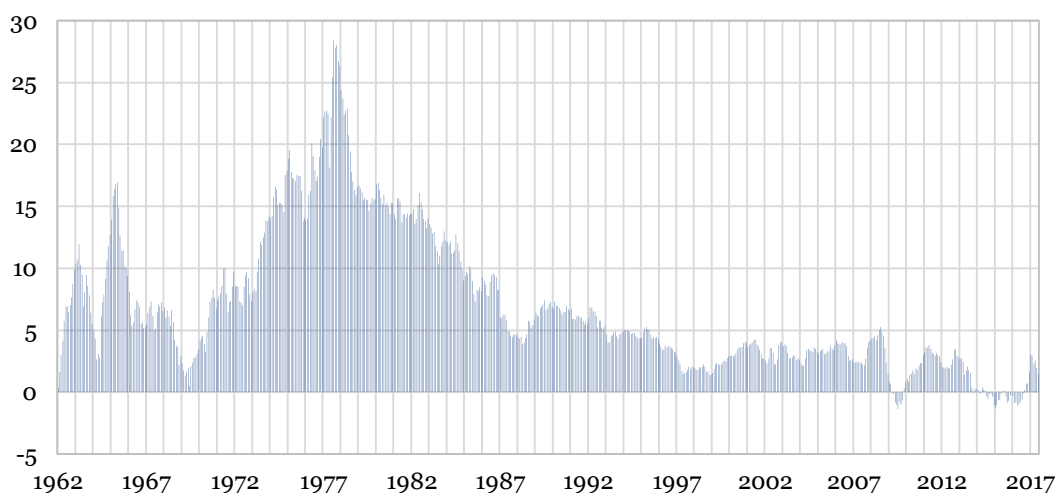
role in Spanish finance was a suggestion of the Bretton Woods Institutions, who collaborated with the technocratic government in the drafting of their developmentalist programme between 1957-9. A World Bank report of 1957 stated that '[t]he *cajas de ahorros*, even as they have social duties, should be regarded as financial institutions equipped with the flexibility to be an integral part of the financial system as a whole' (quoted in Casares, 2003:50).

This heavily statist financial system began to display signs of wear around the turn of the 1970s. In a context in which political accumulation was necessary for commercial success, public sector banks had made a habit of allocating credit to preferential customers, often for arbitrary reasons, resulting in corruption scandals. For instance, the notorious 'Matesa affair' of 1969 involved a textile manufacturing company embezzling and laundering large amounts of money from *Banco de Crédito Industrial* loans (García, 2014:168). In response, public-sector banking was reorganised in 1971 in an effort to 'depoliticise' credit allocation mechanisms. Henceforth, all public credit was to act in coordination with private finance and be channelled through the capital market (Martín-Aceña, 2012:131). The weight of public banking quickly declined thereafter, a trend that reveals the extent to which public credit had been dependent upon clientelist transactions. But fraudulent practices were common in the private sector as well. The largest commercial banks operated as a cartel that fixed interest rates behind the scenes, driving up the cost of credit in the process (García, 2001). Two reforms (1969, 1974) challenged this oligopoly by exposing it to the eager competition of small newcomer banks. Barriers to entry were further relaxed, geographic restrictions to the establishment of new branches were lifted, and interest rate controls were somewhat loosened (Martín-Aceña et al., 2014:62). Importantly, these measures were extended to the savings banks in 1974 in an effort to promote competition between financial intermediaries (Martín-Aceña & Pons, 2005:653). These changes reflected the flickering of a new liberal sensibility in financial policy and foreshadowed the transformation of the *cajas de ahorro* into powerful financial institutions.

Statist finance entered a terminal phase of decline when the economy became consumed by escalating inflation. Even though the most immediate cause of the inflationary pressures was the hike in oil prices, the mechanisms of the statist financial system were also to blame (Santacruz & Donoso, 2011:11). The practice of forcing financial institutions to purchase public debt securities had translated into a continuous expansion of the money supply, while the diversion of liquidity into the manufacturing sector was generating shortages in other areas, driving up the cost of

credit for non-industrial activities. Moreover, the rising inflation was being matched by surging interest rates on loans as credit institutions displaced the costs of money onto their customers; a further choke point to the supply of finance.⁶⁴

FIG.16. GENERAL RATE OF INFLATION 1962-2017 (%)



Source: OECD

Under the weight of these pressures, the Francoist residential apparatus crumbled. As discussed earlier, the ‘brick and mortar’ subsidies that had propelled property development since the 1950s were abolished in 1975 due to their high inflationary effects. Residential output contracted sharply given the lack of incentives and the excessive cost of credit. Once the BHE’s 99-year monopoly over mortgage-backed securities expired in 1971, the liberalised savings banks gained a greater share of the mortgage market (Orti, 1995:91-92). However, they began to concentrate their lending in the unregulated housing market to take advantage of the high interest rates they could charge on loans, leaving neglected other sectors of the housing market. The government responded with a temporary extension of the BHE’s monopoly in 1975, a measure that was designed to finance an ambitious project of public housing development. However, as discussed in the previous chapter, the high interest rates made the plan unfeasible – it was abandoned one year later.

⁶⁴ Public-sector banking experienced a disappointing revival in 1975, as it became lender of last resort, providing finance to municipal corporations (via the *Banco de Crédito Local*, an institution set up during the 1920s), to the manufacturing sector (via the *Instituto de Crédito Oficial*), and to home buyers (via the BHE) (Martín-Aceña & Pons, 2005:653).

6.3. The Conversion of the *Cajas*: Liberalisation and Politicisation

When General Franco died in 1975, the dictatorship unravelled and the country entered a convulsive transition to democracy, a process coupled with a crisis without parallel in the banking sector. It was in this context that the 'liberalisation' of the *cajas de ahorro* allowed them to assume a more prominent role in Spanish finance, not only to fill the void left by a crumbling system of statist finance and a crisis-ridden private banking sector, but also to buttress a new democratic regime grounded in a federal state and pluralist party politics. To do so, the executives of the *cajas* were filled with representatives of political parties, turning these institutions into instruments of political institutions in the context of the new state. In this sense, rather than two contradictory processes, the 'liberalisation' and 'politicisation' of these institutions formed two sides of the same coin.

The transition out of the dictatorship was steered by a post-fascist government of late-Francoist bureaucrats, who refashioned themselves as liberal centrists. In this context, the liberalising trends flickering earlier in this decade came to the fore. A series of major disinflationary reforms arrived in 1977, under the aegis of finance minister Enrique Fuentes Quintana, signalling a historic turn in economic policy:

Our problems will be addressed from a firm belief in the advantages of economic freedom and of the market economy, in the creative force of liberty, seeking to eliminate inefficient and pointlessly centralising interventionist policies.⁶⁵

Interest rate controls were eased off, industrial coefficients were gradually dismantled, and, most importantly, *the savings banks were granted full operational equality with the commercial banks*. This last measure allowed the savings banks to move into the realms of commercial and industrial lending, business segments previously reserved to public and private banks, who now became fierce competitors (Santacruz & Donoso, 2011:12-15). Paradoxically, the 1977 reforms also served to reassert the savings banks' distinct features. The *cajas* were to remain peculiar foundation-like institutions, unable to go public or to have shareholders, and all of their profits had to be reinvested in charitable 'social works' (*obras sociales*). Nor were their localist principles disturbed; their geographic radius of action remained restricted to their home regions. However, for most *cajas* the regionalisation of their operations entailed a considerable

⁶⁵ The quote has been extracted from a televised speech by Fuentes Quintana (1977: min.13:15).

increase in the scope of their markets. Until then, 60% of all savings banks had their operations restricted to a single province, yet only ten years later the majority of savings banks had spread their reach to additional provinces within their regions (Saurina, 2012:317).

These changes came at a time when it was hoped that the *cajas* could supplement the functions of a commercial banking sector in distress. The crisis of manufacturing in this period struck the small- and medium-sized banks opened after 1962 hard. To compete with the sector's behemoths, sheltered by political power, these smaller banks had been pursuing risky strategies of expansion without sufficient expertise. This included opening up a vast number of branches in areas where it made little economic sense, or insisting on keeping afloat uncompetitive industrial firms under their control (Martín-Aceña et al., 2014:61-62). The first banking crash arrived in 1975 but symptoms of wider failure only became patent in 1977, when a growing number of banks began to display problems of liquidity that culminated in a financial meltdown of enormous proportions (Sudrià, 2014:489). The government was caught by surprise and had to improvise the creation of a deposit insurance fund. As months passed, the crisis spread to banks of increasing size. The smaller banks affected were bailed out by the fund but the larger ones were absorbed by more solvent institutions. After a brief respite in 1980, the crisis reignited with a vengeance in 1982. Problems of liquidity spread to the larger banks, including those who had previously taken over smaller banks in distress. A succession of bailouts followed until the haemorrhage was contained in 1985. Along the way, half of the private banks had collapsed and 27% of the sector's capital had vanished; a banking crisis without contemporary parallel. It was also the worst that the country had seen since the 'railway mania' of the 1860s. This dramatic experience had important consequences. The liberalisation of commercial banking was temporarily suspended. As the banks became eager to let go of their industrial liabilities, the government had to soak up the damage to steer the process of de-industrialisation. Mandatory investment rates in government bonds were raised for both *cajas* and banks in 1984 (Saurina, 2012). As in previous decades, the funds raised were then channelled to the manufacturing sector through the *Banco de Crédito Industrial*. But perhaps the most lasting consequence was the growing salience of the savings banks, which began to take over the vacuum left by the commercial banks.

In sharp contrast to the commercial banks, the *cajas* had weathered the tempest remarkably well. A dozen or so closed in this period, but the overall impact in the sector

was less dramatic and more gradual. A number of them were bailed out and in many instances solvency problems were easily fixed through mergers (Martín-Aceña, 2012:88). Apart from their relative insulation from manufacturing, the secret of the savings banks' resilience lied in their culture of mutual solidarity. Their corporate body, the *Confederación Española de Cajas de Ahorros*, promoted internal cooperation. Whenever one of its members was in need of liquidity, the confederation discretely mobilised funds to avoid possible failure. Moreover, echoing the 1920s, the prudent investment profile and evident stability of the *cajas* at a time of financial turbulence became a powerful competitive edge. In subsequent years, the *cajas* became formidable competitors in the deposits market. As a newspaper article put it at the time: 'when offered to choose between fairly similar interest rates, clients prefer to save their money in the *cajas* given the greater solvency of these institutions' (Arancibia, 1985).

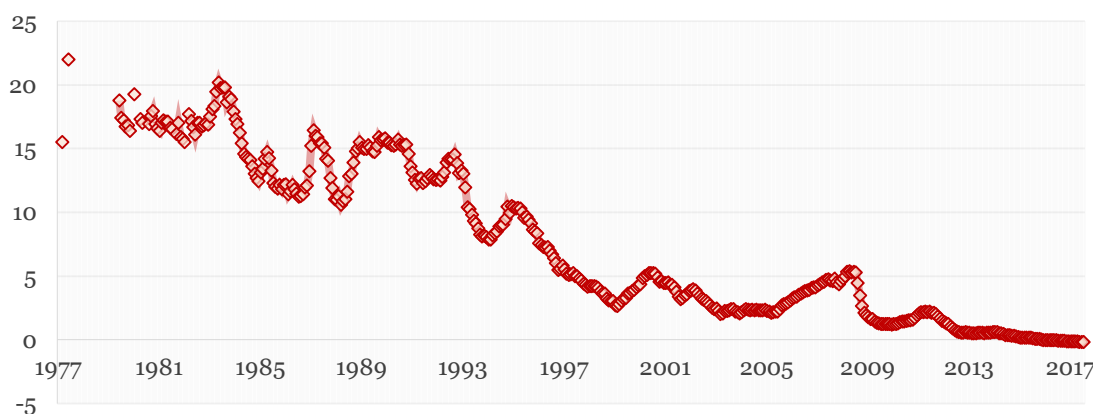
The state also granted new functions to the liberalised savings banks in the provision of mortgage finance as the old financial command economy catering to the residential apparatus began to be replaced with market-based policy instruments. As discussed in previous chapters, once public housing fell off the agenda for good in 1976, a new system of tax breaks for home purchase was instituted in 1978 to replace the old system of brick and mortar subsidies to home construction (Pedro, 2001:252). To support these new demand-side incentives, the housing plans of the 1980s introduced public-private partnerships in the provision of mortgage credit. These arrangements secured the coordination between public credit (i.e. the BHE) and private finance (primarily the savings banks), so that they could jointly provide mortgages at low interest rates and at fixed amortisation times. These measures sought to facilitate the purchase of price-controlled housing in a context of very high interest rates on the market (Fig.17). Later they would be extended to the financing of home reforms and to the rental sector in an effort to stimulate the depressed levels of residential production of the 1980s.

In a further attempt to stimulate the property market, new mortgage legislation in 1981 increased loan-to-value ratios from 50% to 80% (López & Rodríguez, 2010:286). But more importantly, the practice of issuing mortgage-backed securities was extended to the savings banks, breaking the century-long monopoly of the BHE, and from 1988, to the commercial banks as well (Orti, 1995:91-92).⁶⁶ After a century of deprived access,

⁶⁶ To be precise, the monopoly of the BHE had already been broken once before: in 1978, when another public bank (the Credit Institute for National Construction) was allowed to issue such bonds to finance the purchase of price-controlled housing (Orti, 1995:91-92). However, the Credit Institute was then merged with the BHE in 1982.

this encouraged the commercial banks to enter a market that they had previously neglected. Attached to these reforms came the creation of a secondary market for mortgage-backed securities, boosting the liquidity of financial circuits. These measures would inaugurate the financialisation of the Spanish residential apparatus – something which I shall return later.

FIG.17. REFERENCE RATE 1977-2017 (%)



Source: Banco de España. Data includes Mibor and Euribor figures.

The transformation of the financial system was subjected to political calculations in the context of the ongoing restructuring of the state. With the restoration of liberal democracy in 1978 came a political settlement that promised to devolve a considerable amount of competences to a large number of newly-created regional and local governments. The transfer of powers accelerated after the massive landslide victory of the social-democratic PSOE in the general elections of 1982. Devolution addressed a major concern of the new government: the ‘defascistification’ of the state. Thus, devolution diluted the power of the old elites into a multi-scalar structure of democratically-elected governments. The political convenience of this strategy must be framed within the context of the crushing degree of electoral power held by PSOE at the time, as devolution and democratisation allowed ruling parties to extend their grip on broad areas of the state bureaucracy. These considerations extended to the financial industry, where the old establishment held considerable power after a long period of statist financial policies.

To this end, in 1985 control over the savings banks passed on to the new regional governments. At the time, these institutions were still run by managers appointed by their original founders (usually the families of nineteenth-century philanthropists or the Catholic Church). Yet, ‘with the impetus of their founding fathers long gone, the

process of appointment of senior executives had degenerated into a co-option process prone to nepotism and inefficiency' (Poveda, 2012:262). The 1985 reform restructured the internal organisation of the savings banks to neutralise the power of the founders and 'fully democratise their governing organs, so that they represent the genuine interests of the areas in which they operate'.⁶⁷

This meant filling the governance structures of the *cajas* with representatives from a vast array of interest groups: *depositors*, *employees*, and, most importantly, *public authorities*. Each one of these interest groups was assigned a different degree of power to appoint representatives to the General Assembly, the highest ruling body of every savings bank. The local councils of those areas where a *caja* was present were granted the power to appoint 40% of the members of the General Assembly, whereas the power of the founders was reduced to a symbolic 11%. In addition, regional governments were granted supervisory oversight of the operations of the savings bank. However, there was an important caveat: since some savings banks had originally been founded by public bodies (municipal or provincial corporations rather than wealthy philanthropists or the Catholic Church), in many cases the combined power of public authorities amounted to 51% of the Assembly.⁶⁸ On top of this, the governments of regions where the savings banks' were headquartered could appoint representatives to the internal supervisory organs of every *caja*. Altogether, these changes effectively turned the *cajas de ahorro* into a semi-public financial institutions.

Moreover, as addressed earlier, the Fuentes Quintana reform had granted the savings banks the capacity to operate in the same business segments as the commercial banks but had maintained a restricted geographical range for their activities. This changed in 1988, when the *cajas* were allowed to expand their operations across all Spanish territory (Saurina, 2012). Thus, in subsequent decades, the savings banks became instruments of political accumulation through which regions projected their financial power over others.

⁶⁷ The quote is from the preamble of the following law: *Ley 31/1985, de 2 de agosto, de Regulación de las Normas Básicas sobre Órganos Rectores de las Cajas de Ahorros* (1985) BOE-A-1985-16766

⁶⁸ In addition, to the power of municipalities, founders, and depositors gained the power to designate 44% of the members of the assembly and employees an additional 5%. The Assembly was then in charge of appointing the members of the other two bodies: The Executive Board and the Control Committee. The Executive Board was made of 13-17 members and was in charge of running the day to day operations of the savings bank, including the decisions over the allocation of its surpluses. The Control Committee kept in check the functioning of the institution according to its regulations. The supervisory role of the regional governments was carried out through the appointment of a representative to the Committee.

The conversion of the *cajas* in the decade spanning 1978-1988 cannot be overstated. As late as the mid-1970s, the *cajas* were still small credit institutions confined to low investment profiles: small-scale personal loans, mortgages, and government bonds. Their governing bodies were eminently technical and only responded to the interests of their founders. Apart from the obvious differences, they still very much resembled analogous thrift institutions in other European countries. Ten years later, the savings banks had become something else altogether. They had become semi-public and highly competitive firms, capable of operating in the same business segments and in the same geographical territory as the commercial banks and of quickly raising capital through the issuance of mortgage-backed securities. In short, whereas the savings banks had come out of the dictatorship bearing a great resemblance to the nineteenth-century version of themselves, only a decade later they had transformed into something radically different. And to the alarm of the banks, the *cajas*' market share on deposits grew from 33% to 46% during this period (Harrison, 1993).

6.4. Competition Intensifies: The Europeanisation of Finance

With the liberalisation of Spanish finance, credit markets became realms of intensified competition between finance providers, a process that prepared financial institutions for their exposure to competitive pressures from abroad. In this context, the newly liberalised and politicised *cajas* proved to be worthy competitors of the commercial banks, which merged into a duopoly to keep themselves afloat, and eventually turned abroad to escape from the *cajas*' competition. In other words, even as the *cajas* were becoming highly politicised institutions at the service of their regional governments, they remained capable of sustaining high levels of competitive success.

After Spain's access to the European Economic Community in 1986, foreign investment funnelled in. Facilitated by the financial reforms outlined earlier, a bubble formed in the property market. As signs of growth returned, the agenda of financial liberalisation resumed under the aegis of PSOE's finance minister, Miguel Boyer, not without some internal strife within the ruling party over the increasingly liberal tilt of the government. Boyer echoed the rhetoric of Margaret Thatcher to charge against the failure of 'statist ideas' and announced that his liberalisation programme was the only alternative to economic 'suicide' (quoted in Matías, 1986). Yet, for all the reformist talk, Boyer's policies were a mere culmination of the trends set in motion by late-Francoist reformers. Completing the dismantlement of interest rate controls begun back in 1969, all remaining restrictions to interest rates on deposits were abolished in

1987 (Poveda, 2012:245).⁶⁹ The creation of a level playing field for *cajas* and banks – a process initiated in 1974 – was finalised in 1988, when the geographic restrictions to the operation of savings banks were lifted (Martín-Aceña, 2012:88). The opening of the financial system to foreign banks had begun in 1978, and the total elimination of barriers to entry (for EU banks) was gradually completed between 1988-1995 to gear up for the creation of a European financial space. Indeed, these reforms stemmed from a genuine interest to ‘update’ the Spanish economy to European standards, in an effort to prepare the groundwork for further European integration (Martín-Aceña et al., 2014:65). This also conferred the government a great degree of legitimacy in the eyes of the public. As discussed in the previous chapter, the idea of Europeanisation enjoyed wide electoral support as it was perceived to seal the transition out of a dictatorial past.

For all the removal of prior restrictions, it would be a mistake to suggest that ‘liberalisation’ implied the clearing of a political vacuum for markets to operate without restraint – this is a fantasy that does not hold up to empirical scrutiny. On the contrary, the European phase of liberalisation came attached with an extension of financial regulations. A notable example is the introduction of capital requirements. The equivalent to a risk-weighted liquidity ratio was introduced only in 1985 in an effort to prepare for what would become the international regulations of Basel I (1988) and the European Solvency Directive (1989) (Poveda, 2012:242-245).⁷⁰ At the same time, a series of European directives inspired the creation of entire legal frameworks to introduce new financial actors (e.g. pension funds, from 1987) and instruments (e.g. derivatives, from 1989) (Oliver, 1996:120). These additional regulations were necessary to adapt and coordinate the juridical matrix of Spanish finance to that of European practices; a process of harmonisation that afforded Spanish banks the ‘passport’ to operate within the new European single market after 1994 (Saiz et al., 2003:558). Likewise, to make the stock exchanges more accessible to European investors, a 1988 reform increased dealing time, introduced controls to insure transparency in dealings, and replaced the old monopolistic system of individual brokers with a new system of competitive stock brokering firms (Restoy & Sánchez, 2012:276).⁷¹

⁶⁹ The dismantlement of such controls had been suspended in 1981 to soften the landing of the banking crisis. However, this logic no longer made sense as the economy boomed with the inflation of a housing bubble. In any case, the banks were no longer respecting them anyway (Poveda, 2012:245).

⁷⁰ The practice of liquidity ratios already existed. However it was still in its cradle: the first regulations of this sort were only established in the period between 1974-1979 (Poveda, 2012:242).

⁷¹ The stock market had a peripheral role in the economy until Spain’s access into the European Union. It was criticised for its inefficiency and lack of transparency in dealings. Spanish companies would continue to show little interest in going public until the mid-1990s (Amodia et al., 1998:112).

Rather than unleashing the market, the liberalising measures at the turn of the 1990s are more accurately described as political attempts to re-engineer financial markets as realms of intensified competition. This process was most visible in the field of deposit banking. The full liberalisation of interest rates in 1987 sharpened rivalries in the attraction of savings. Two years later, *Banco Santander*, a commercial bank still on the rise, launched high interest-bearing deposit accounts, detonating the so-called ‘deposit war’ (Poveda, 2012:150). The struggle for deposits had an additional source of pressure: the de-territorialisation of savings banks. The extension of the *cajas*’ orbit of operations beyond their traditional regional shell turned them into even more mighty competitors. Following a quick process of spatial expansion, as early as 1993 the savings banks overtook the commercial banks on deposits (although the *cajas*’ market share did decline somewhat in subsequent years) (Harrison, 1993:72).

The intensification of competition was accompanied by a fast process of capital concentration. Savings banks began to join forces with other savings banks from their regions. Indeed, some of the most infamous *cajas* emerged out of mergers in this period: the Valencian savings banks *Bancaja* and *Caja de Ahorros del Mediterráneo* were formed in 1991 and 1992; the Andalusian *Cajasur* was formed in 1994; the Galician *Caixanova* was formed in 1999, etc. (El Mundo, 2010a). The commercial banks responded with a wave of mergers of their own. The members of the old oligopoly of the ‘big five’ began to cannibalise one another: *Banco de Bilbao* and *Banco de Vizcaya* merged in 1988 to form *BBV*, and *Banco Central* and *Banco Hispano Americano* merged in 1991 to form *BCH* (Saurina, 2012:312). After repelling aggressive takeovers and a series of unfortunate mergers of its own, the bank that had once led the big five, *Banco Español de Crédito (Banesto)* collapsed in 1992 and its remains were sold off to *Santander* shortly after. This process of capital concentration also engulfed what was left of public-sector banking. Between 1982-1991, the public banks were subject to a process of mergers of a very different nature: all public credit institutions – including the historic *Mortgage Bank of Spain (BHE)* and the *Industrial Credit Bank* – were gradually blended together in 1991 into a single public credit bank, named *Argentaria* (Martín-Aceña & Pons, 2005:654). Even though *Argentaria* remained one of the largest banks in the country throughout the 1990s, the weight of public credit experienced a sustained decline. By the end of the decade, the total of financial assets commanded by public credit institutions stood at 3-4% of the total (a stark contrast with the 20% of the late 1960s) (see Banco de España). In any case, *Argentaria*’s existence was short-lived: in the midst of the privatisation craze of the first People’s Party government, it was sold off to *BBV* in 1999. In parallel, *Santander*

merged with BCH (Saurina, 2012:310). In short, by the turn of the millennium, the number of savings banks had experienced a dramatic decline (from 78 in 1985 to 48 in 2000) (Martín-Aceña, 2005:693); the ‘big five’ commercial banks had turned into the titanic two (*BBVA* and *Santander*); and public-sector banking had become altogether extinct.

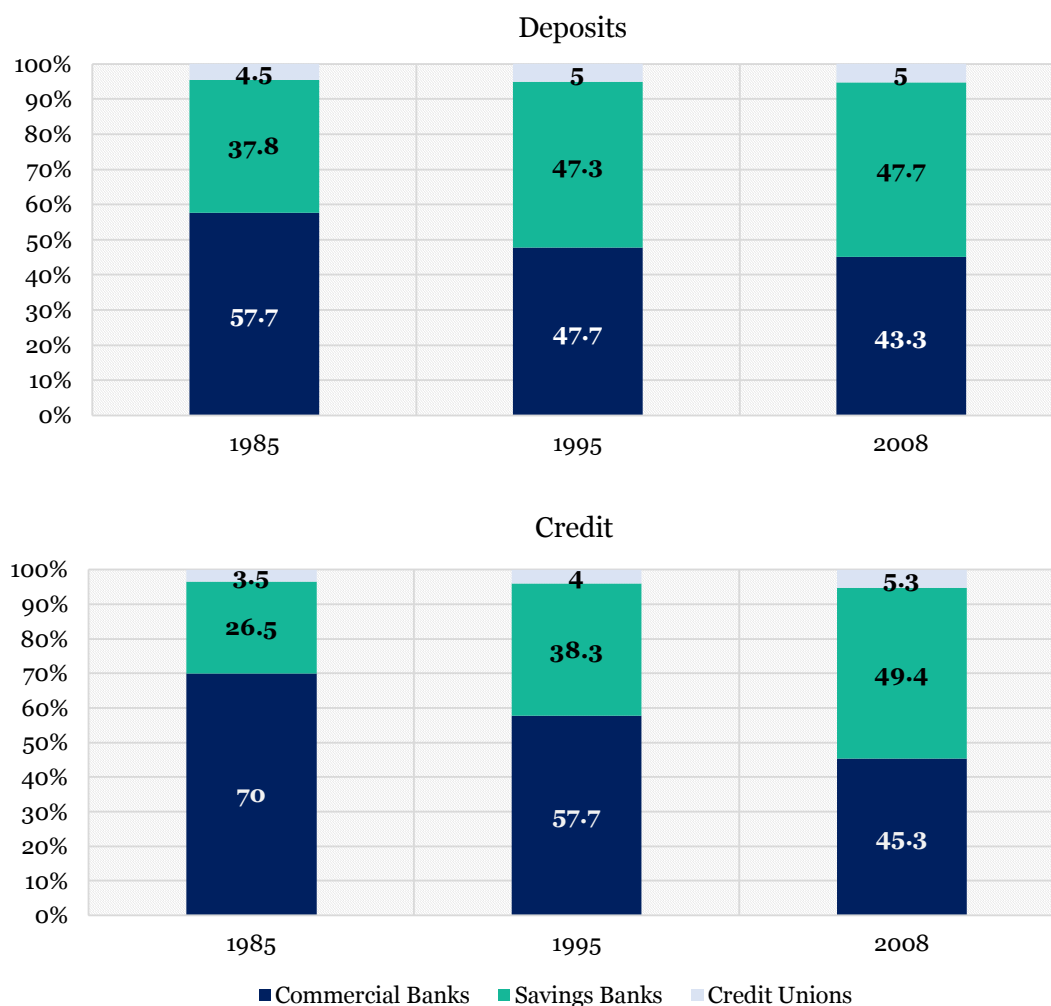
As was also the case in other countries (e.g. Italy), this process of capital concentration was encouraged by the government in an attempt to make Spanish financial institutions more resilient to the globalisation of competition (Poveda, 2012:250).⁷² And indeed, by the time when all restrictions to the establishment of foreign branches were lifted 1995, the retail banking sector was populated by dense networks of home-grown offices that foreign banks found very difficult to penetrate (Bergés et al., 2012:355-362).⁷³ To this day, foreign banks have only managed to occupy a modest share of the retail market and have decided to focus on wholesale lending instead (interbank lending, bond issues, securitisation). Instead, the trend in internationalisation occurred in the opposite direction. The Spanish banks turned outward and exported their presence, first to Latin America (in the 1990s) and then to the European continent (in the 2000s, a process that was buttressed by the introduction of the single currency).⁷⁴ The process of internationalisation was concentrated in the commercial banking sector, and in particular amongst the two largest institutions: *Santander* and *BBVA*, which came to own around 90% of all Spanish bank subsidiaries abroad by 2009 (ibid.:362). By contrast, the savings banks focused their activities on Spanish territory. This complementary pattern was not an accident. The main reason why commercial banks were taking to other countries was because they were fleeing the competitive thrust of the *cajas* in the domestic market (ibid.:364-267). Even though the *cajas* lost market share on deposits after the mid-1990s, this decline was offset by an increased relevance on the credit market over the course of the 2000s.

⁷² This approach was particularly inspired by the work of academic economist Jack Revell, who in his 1987 study of Spanish banks offered a number of reasons for banking concentration: ‘to take advantage of economies of scale and automation; to meet large customers’ borrowing requirements; to rationalize the branch network; to achieve international status; and to stand up to competition from foreign banks’. He even suggested specific pairings between banks, a vision that, according to Poveda (2012:250), became a self-fulfilling prophecy.

⁷³ This density only increased over time: the number of bank branches experienced a near 20% increase between 1997-2007. This is highly significant given the simultaneous decline elsewhere in the European Union: whereas in the EU the average population per bank branch was of 2720 by 2007, by then Spain had a bank branch per 977 inhabitants (Vives, 2012:395).

⁷⁴ This process followed that of their largest clients: the country’s largest non-financial corporations were experiencing a parallel process of internationalisation. The *cajas* undertook some attempts at internationalisation until the mid-1990s. However, this process was rolled back with the onset of the property bubble. Legally, commercial banks were allowed to establish branches abroad without restrictions from 1985 and the savings banks from 1988 (Bergés et al., 2012).

FIG.18. MARKET SHARE OF FINANCIAL INTERMEDIARIES



Source: Santacruz & Donoso, 2011.

6.5. Financialisation, Urban Entrepreneurialism, and the *Cajas*

The competitive prowess of the *cajas*, particularly in the credit market, went hand in hand with their specialisation in real-estate lending, a sector that boomed in the 2000s with the inflation of a massive property bubble. At the same time, the *cajas* turbocharged the bubble with their lending at the behest of their political patrons, who mobilised the savings banks as instruments of urban entrepreneurialism, that is, strategies of local boosterism to attract private investment into their areas and please their electorates. Underpinning these processes were the patterns of political accumulation of a new elective elite, who mobilised their influence over the *cajas* to reproduce the power of their political parties. Thus, the fate of the *cajas* became tied

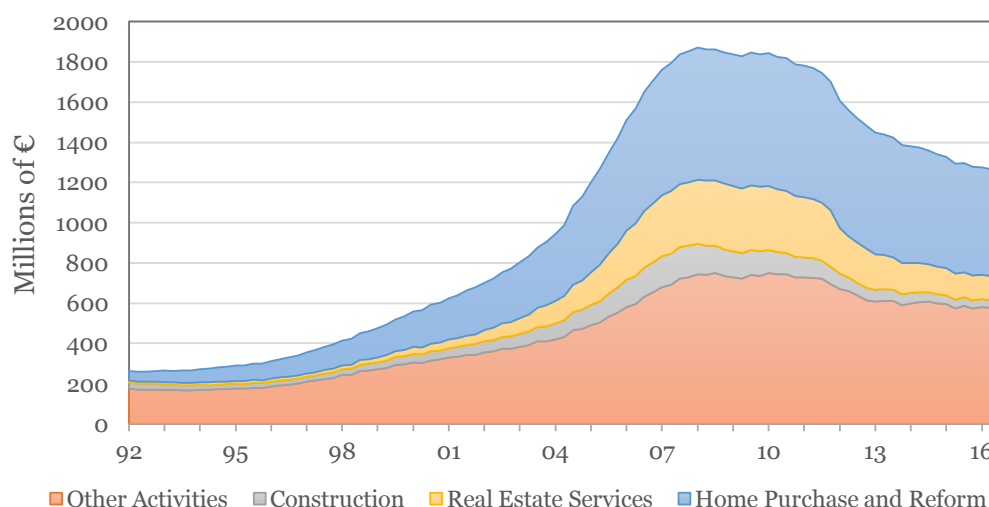
to the fortunes of the real-estate sector, a relationship that brought them a considerable market success before leading to their demise.

At the heart of the rise and fall of the *cajas* was the financialisation of the residential apparatus with the break-up of the BHE's age-old monopoly over the issuance of mortgage-backed securities. Allowing *cajas* (in 1981) and commercial banks (in 1988) to engage in this practice revolutionised the dynamics of real-estate finance in the 1980s. Hitherto perceived to be a risky and unprofitable venture by financial institutions, the ability to quickly raise capital through mortgage-backed securities became a central pillar of the financial system. Indeed, over the course of this decade, the country's portfolio of mortgage-loans quadrupled.

The government became acutely aware of the new centrality of real-estate finance, particularly after the housing bubble of 1986-1992: 'The increase of mortgage credit in our country in the last few years has been of such magnitude that it could be considered one of the most significant features of our economic expansion'.⁷⁵ Thus, when the housing bubble burst in 1992 due to the crisis of the European Exchange Rate Mechanism, the government opted for deepening mortgage securitisation practices as a counter-cyclical measure. To do so, it regulated the creation of 'securitisation funds' (*fondos de titulización*) (López & Rodríguez, 2010:287-293). These funds were special purpose vehicles specialised in mortgage securitisation. They would purchase large amounts of mortgage-backed securities issued by banks or *cajas*, pool together their different income streams, isolate their financial risk, and repackage them as lucrative securities of their own. To avoid the 'moral hazard' of this originate-to-distribute model, Spanish regulations required the bank or *caja* where the loans had originated to retain part of their risks of default (ibid.:292). Securitisations took the form of 'covered bonds' (backed by the originators' mortgage loan portfolio) or used simple securitised bond structures in which the originators retained the first losses. Moreover, originators continued 'to play the role of credit managers with responsibility for monitoring and supervision' (Vives, 2012:387). Ultimately, banks and *cajas* began to use securitisation merely as a wholesale funding mechanism rather than to actually transfer risk to securitisation funds (i.e. the original purpose of this practice).

⁷⁵ The quote is from the preamble to a decree modifying the regulations around home reposessions. See *Real Decreto Legislativo 1/1992, de 26 de junio, por el que se aprueba el texto refundido de la Ley sobre el Régimen del Suelo y Ordenación Urbana* (1992) BOE-A-1992-15285.

FIG.19. REAL ESTATE IN THE EXPANSION OF CREDIT (1992-2016)



Source: Banco de España

The issuance securities experienced dazzling growth during the housing bubble of the 2000s. Prior to the start of the bubble in 1997, the combined weight of the real-estate sector (i.e. construction, real-estate services, home purchase and home reform) amounted to 33% of the lending by retail financial institutions. As property development took off in the coming years, this figure expanded dramatically: at the peak of the bubble in late 2006, real-estate loans had grown to encompass 61% of all retail credit (Fig.19). This surge in real-estate credit would be unintelligible without the financialisation of household economies described in the previous chapter, according to which financial institutions encouraged homeowners to indebted themselves as much as possible. This was the magic of mortgage-backed securitisation: the reliance of banks and *cajas* on wholesale sources of finance allowed them to expand their mortgage lending operations beyond the growth of their own deposits. Indeed, as addressed in the previous chapter, household savings experienced a dramatic drop in this period (García-Lamarca & Kaika, 2016:318). Yet, the contraction of deposits meant that the Spanish financial system became highly dependent upon external sources of finance, that is on the issuance of covered bonds and asset securitisations, but also interbank lending (Vives, 2012:403). The definitive boost to the expansion of securitisation (mortgage-backed or otherwise) came with Spain's entry into the Eurozone, which facilitated the internationalisation of securitisation circuits (Restoy & Sánchez, 2012:277; Martín-Aceña, 2014:91). By 2007, the Spanish issuance of securitised assets amounted to 15% of the European total; a figure second only to the hyperfinancialised United Kingdom (which amounted to 51%) (López & Rodríguez, 2010:293).

This dynamic, by which financial intermediaries relied on sources of external wholesale finance to funnel credit into the real-estate market, was dominated by the *cajas de ahorro*. Paradoxically, the institutions that had been historically known for their low-risk deposit banking became Spain's cutting-edge financial intermediaries, highly involved in market-based assets and speculative investments. By contrast, the commercial banks had a limited amount of market-based assets and relied much more on deposits and personal loans. Further, their higher degree of internationalisation lowered their exposure to domestic retail finance, by then dominated by the mortgage loans (Quaglia & Royo, 2015; Bergés et al., 2012:363). Although the commercial banks' lending was also highly exposed to real estate (an average of 53%), the exposure of the *cajas* to this sector soared to an average of 69% (Vives, 2012:403-405). However, in the case of certain *cajas*, the exposure was much higher: the infamous *Caja de Ahorros del Mediterraneo* had 98% of its investments concentrated in the real-estate sector prior to its nationalization in 2011 (Lavezzolo, 2012).

This specialisation in financialised real estate would be unintelligible without considering the political role performed by the *cajas* in the urban entrepreneurial strategies of cities and regions. The political conversion of the *cajas* in the 1980s empowered representatives of local councils, allowing them to handpick a large section of the executive boards of the local *caja*, and granted regional governments supervisory functions over these institutions. However, the political capture of these institutions deepened over time. Some regional governments equipped themselves with the power to appoint a certain share of regional parliamentary representatives to the assemblies of their savings banks. This was the case of Valencia after 1997, where a hegemonic People's Party subsequently eroded the proportion of representation owed to parliamentary opposition parties in order to strengthen its grip over the regional financial system (Villar, 2006). In the case of Valencia, the regional government claimed a 28% of representation in the *cajas*' Assemblies (Lavezzolo, 2012). Another example is that of Castilla-La Mancha, where for some time politicians gathered up to 71% of the voting share in the regional *caja*. European regulations forced a 50% cap on the degree of representation allocated to political officials in 2002.⁷⁶ However, a lack of organised presence of the depositors – the second largest interest group represented in the ruling bodies of the *cajas* – whose representatives were often picked at random, gave a disproportionate amount of power to party interests. According to the estimates

⁷⁶ See *Ley 44/2002, de 22 de noviembre, de Medidas de Reforma del Sistema Financiero* [2002] BOE-A-2002-22807).

of an IMF report (2012:8), out of the 43 savings banks left in 2009 at least 16 granted political representatives a 40-50% share of voting powers in their corporate governments. This politicisation of the *cajas* manifested itself in inter-regional political conflicts when savings banks of different regions took over one another. *Caja* mergers often ignited struggles over what share of political control corresponded to each regional government.

Once firmly in the grip of local and regional political parties, the lending operations of these institutions were put to use in ways that could later afford these parties electoral returns. The *cajas*' lending was mobilised to finance public infrastructure projects, the construction of emblematic buildings, or the development of huge residential areas sitting on land re-classifications, all to the benefit of the same local authorities pulling the strings within the savings bank (Lavezzolo, 2012). Regional governments, supposedly in charge of supervisory functions, often had vested interests in these collusions, as they allowed regional parties to strategically direct investment towards the areas that were most electorally disputed. As the next chapter will show, this is why the *cajas* financed numerous infrastructure projects: so that the parties of their political patrons could reel in the contractors' bribes. Many of these ended up in ruins. Nevertheless, the loans that ended up crashing these savings banks were not so much those granted to the different scales of the state but to households and non-financial corporations, such as real-estate development firms. Here there was political intervention as well. The 'turbocharged' lending of the savings banks acted as a quantitative easing of sorts. The provision of rocket fuel to the bubble generated a 'collective sense of wellbeing' (ibid.). Wages were falling and savings were running out, but jobs were being created, home prices were on the rise, personal credit was cheap, and localities were becoming beautified.

When the property bubble ran out of steam in 2007, and external sources of liquidity dried up in 2009-2010, the *cajas de ahorro* entered the first and last major crisis of their long history. For all the corruption that they festered, accounts of the demise of the *cajas* centred around political distortions miss that political corruption and a good performance on the market had been perfectly compatible for decades. Indeed, the *cajas* were overexposed to the real-estate downturn because they had previously outcompeted the commercial banks in retail business segments. Due to the particular sequence of their development (i.e. they only became 'national' financial institutions in the 1990s), their competitive edge came with a rapid process of geographical expansion. This overstretched the savings banks and made them vulnerable to

financial shocks, something that their political regulators were unwilling to address. And thus, in the midst of the global financial crisis, their half of the financial system suffered accordingly.

Conclusion

When the *cajas* imploded in 2010, public authorities commanded a series of mergers to contain the losses. In 2012, in the midst of the Euro crisis, when the immaturity narrative was at the height of its popularity, the government opted for the extinction of the savings banks sector altogether. Out of the 48 *cajas* dominating the property market in the 2000s, 46 were blended together into a small number of financial conglomerates that were then turned into commercial banks (e.g. *Bankia*). The remaining two are local *cajas* that only ever played a minute role in the financial system. This dramatic ending seemingly confirms immaturity narratives of the Spanish crisis, which have insisted on framing the *cajas* as inherently profligate and distortive due to their political control. Yet, this narrative forgets how, regardless of the financial intermediary at stake, processes of ‘economic’ accumulation in the property market have often been intertwined with patterns of ‘political’ accumulation in the history of Spanish finance; a relationship that has taken different forms over time.

In the long nineteenth century, when the Spanish state was firmly in the grip of large landowners, the elites exercised their power through a semi-public monopolistic bank – the *Banco Hipotecario de España* (BHE) – at the expense of the urban and rural poor, who had to meet their financial needs through the then small and local *cajas* (if not turn to the money-lending activities of the landowners). At the time, the commercial banks were largely disinterested in the property market. Rather, their focus was on much more speculative ventures that brought a string of crashes in the nineteenth and early twentieth centuries. The Francoist state rose to power with the promise of tackling the power of liberal elites and their financiers, establishing a highly statist financial system that relied on public financial institutions and the command of private finance towards strategic sectors. In this context, the BHE was nationalised and the *cajas* turned, effectively, into semi-public institutions, all to ensure the operation of the residential apparatus discussed in previous chapters. Yet, rather than tackling elite domination through financial means, the Francoist state merely redirected their power through the channels of an arbitrary and authoritarian bureaucracy, where dictatorship and commercial bankers developed a symbiotic relationship that resulted

in powerful oligopolies. The degree of political accumulation (i.e. via clientelism) that was necessary to ensure success in this atmosphere resulted in corruption scandals around the 1970s, a process that was followed by a crisis without parallel in the commercial banking sector, struck by the stagflation crisis of this period. It was under these pressures that the system of commanded finance that catered to the residential apparatus collapsed as well.

To address these problems, the financial system was 'liberalised', that is, rewired in a way that would intensify competition between financial intermediaries. The purpose of these reforms was to tackle the dysfunctionalities of previous decades, but also to relaunch the property apparatus by stimulating mortgage finance. It was in this context that the *cajas* were gradually granted operational equality with the banks and equipped with greater mortgage-lending functions (e.g. the capacity to issue mortgage-backed securities) to fill the void the commercial banks had left behind. At the same time, the *cajas* were also 'politicised' in order to provide a firmer grounding to the new federal democratic state. Local and regional governments were granted representatives in their executive boards, allowing them to steer their operations. This conversion of the *cajas* turned them into formidable instruments of urban entrepreneurialism, which became a form of political accumulation in a context of inter-party competition. Outflanking the banks in a competitive financial market, political control allowed the *cajas* to assume critical positions in the real-estate market, from where they turbocharged a financialised residential apparatus. This tied their fate to the fluctuations of the property bubble, and eventually led to their downfall.

In showing how the vicissitudes of Spanish finance have always been tied to the patterns of political accumulation of a given era, this chapter buttresses a central claim of the thesis: that the bubble of the 2000s needs to be understood through the lens of the historicity of its political dynamics rather than in terms of structural laws of causation. In doing so, the chapter also addresses the central research question of the thesis (*why did the Spanish path into the crisis manifest as two seemingly contradictory processes – as a house-price bubble and as a wave of residential overproduction?*), as it demonstrates that the relationship between Spanish finance and real-estate speculation needs to be understood as an expression, for good *and* for worse, of the clientelist politics of urban governance. The next chapter will build upon this claim by examining how these clientelist dynamics were not a mere outgrowth of the economic logic of bubble, but, in fact, constitutive of it.

7. The Iron Triangle of Real Estate: The Political Economy of Political Corruption

7.0. Introduction

When the ‘Bárcenas affair’ broke out in January 2013, evidence surfaced that the conservative *Partido Popular* (PP), had been running a slush fund to manage a regular stream of bribes from business potentates, largely from the construction industry (Romero, 2013). This was all the more ironic given that the party had won by a landslide only two years earlier amid promises to end the country’s sleaze and profligacy. The scandal was named after the party’s chief treasurer, Luis Bárcenas, whose leaked handwritten documents detailed a parallel bookkeeping system stretching back two decades. The ‘Bárcenas papers’, as they came to be known, also recorded how the party had put these monies to use. The main purpose of the slush fund was to provide a war chest for electoral expenses, suggesting systematic multiple election fraud. The books also revealed a system of under-the-counter cash bonuses to the leadership, exposing the collusion of the party’s upper echelons.

The Bárcenas affair was merely the high-water mark of the tide of corruption scandals relentlessly making the news over the last decade. In 2016, the country’s overstretched judicial system struggled to cope with 1,661 ongoing corruption cases (Barbería, 2016). The vast majority of these scandals have radiated out of the field of urban development, and they tend to bear the distinct marks of what the corruption studies literature calls ‘political corruption’: ‘the distortion of a policy process through illicit financial interests influencing decision-makers at the state level’ (Heywood, 2007:695).⁷⁷ And yet, as discussed in chapter 1, the question of political corruption remains remarkably absent from the critical political economy studies of the Spanish property bubble, an omission that is particularly glaring in the spatial fix narrative, given its focus on urban development. Indeed, in the rare occasions that corruption is cited in this literature, it tends to be described as a consequential phenomenon: ‘the outcome of a failed institutional design based on neoliberal governmentality’ (Coq-Huelva 2013:1223). In explaining the role of the state in the bubble, the priority of this literature is ‘urban entrepreneurialism’, the pressures of inter-urban competition for private capital flows. The problem is that the prism of urban entrepreneurialism, understood in purely economic terms, allocates causal primacy to structural constraints, reducing

⁷⁷ As opposed to ‘administrative’ corruption, which instead refers to abuses around the performance of basic bureaucratic procedures (Heywood, 2007:695).

corruption to an *outcome* of the fiscal dependence of the state upon speculative activity and to an ‘*extra-legal ramification*’ of the ‘the fiscal weakness of municipalities and their dependence upon real-estate markets’ (López & Rodríguez, 2010:354, emphasis added).

The purpose of this chapter is to demonstrate how the abuses unearthed in recent years suggest that political corruption played a much greater role in the bubble than what this literature has been willing to admit. Rather than a mere outgrowth of the ‘economic’ imperatives of the bubble, corruption should be seen as a ‘political’ logic *constitutive* of the bubble itself. To do so, the chapter will cast light upon the workings of an ‘iron triangle’ at the heart of the Spanish real-estate market. The term ‘iron triangle’ is, of course, borrowed from American politics, where it famously designates the dynamics of institutional capture by special interests, particularly by contractors of the so-called ‘military-industrial complex’. The term is here deployed to capture a similar process in Spain, one mediated by a three-way relationship between the construction industry, the state, and political parties.⁷⁸ The argument is that local and regional governments manipulated their procedures to favour specific construction firms not only to create a favourable business environment that would attract investment and please electorates, but also so that ruling political parties could funnel bribe moneys into their electoral machines, boosting their chances of reproducing their access to state power. Over time, this set in motion a self-reinforcing tendency: political parties expanded their bribe-levying capacities to compete with one another, firms purchased their access to political influence in order to ensure their market success, and all of these power flows were mediated by Spain’s peculiar structures of local and regional governance.

In arguing that the bubble had a ‘political’ logic, this chapter showcases a central claim of the thesis: that the patterns of political accumulation (i.e. elite competition by non-commercial means) particular to the post-Franco period were a main driver of the boom and bust of the 2000s. In short, rather than reducing political accumulation (in this case, real-estate clientelism) to a reflex of urban entrepreneurialism, this chapter inverts the formula to explore the ways in which urban entrepreneurialism was a consequence of political accumulation, though, to be sure, without denying the very

⁷⁸ This is not unlike what Manuel Aalbers and his team have elsewhere called the ‘real-estate-financial complex’: ‘We here propose a new metaphor that can help us to centre attention on the connections between real estate, finance and states: the real estate/financial complex, akin the military/industrial complex’. A summary of the research project can be found in their page: <https://ees.kuleuven.be/geography/projects/refcom/project/index.html>

real material pressures of inter-urban competition. As such, the dimension of the political that figures most prominently in this chapter is that of *social conflict*, as it deals, above all, with the struggles of groups and classes to reshape urban governance.

The chapter is structured in three parts, each dedicated to one of the three vertices of the iron triangle. In turn, each of one of these three parts is divided into two sections each. The first part (7.1) explores the first vertex: the state structures of urban governance in Spain. Section 7.1.1. will examine the exceptional amount of power that Spanish local and regional executives have over the built environment, as well as the degeneration of the controls designed to keep the arbitrary exercise of this power in check. Section 7.1.2. examines the pressures of urban entrepreneurialism in the 2000s and the specific practices through which inter-urban competition was exercised. The second vertex (7.2) is formed by the construction industry. Section 7.2.1. will trace an anatomy of the construction industry during the years of the bubble, providing a portrait of the business structure. Section 7.2.2. will draw a typology of the clientelist transactions that nourished this industry in this period, showing the specific exercises of political influence that shaped the market. The third vertex (7.3) will address the role of political parties in the triangle, the aspect most neglected by the literature. Section 7.3.1. will dissect the mechanics of electoral fraud in Spain, showing how parties could regularly inflate their election spending beyond the limits stipulated by the Constitution. And finally, section 7.3.2. will reconstruct the criminal systems financing political parties from news data, with a particular focus on the *PP*, the party for which there is most information available.

7.1. First Vertex: The State Structures of Urban Governance

As addressed in chapter 5, one of the greatest successes scored by the urban working-class activism of the 1970s was the devolution of strong competences over the built environment to municipal governments. The original purpose of these demands was to bring urban space under democratic control in order to prevent the abuses of property developers. However, from the 1980s, the decay of the bureaucratic structures keeping in check these municipal governments allowed elected officials to exercise their extensive powers in a largely arbitrary manner. This has often meant the surrender of the built environment to the rule of local strongmen and women, enabling various clientelist transactions that have once again facilitated the subordination of the urban realm to the interests of real-estate developers.

7.1.1. *Petty Kingdoms: Municipal Democracies as Elective Dictatorships*

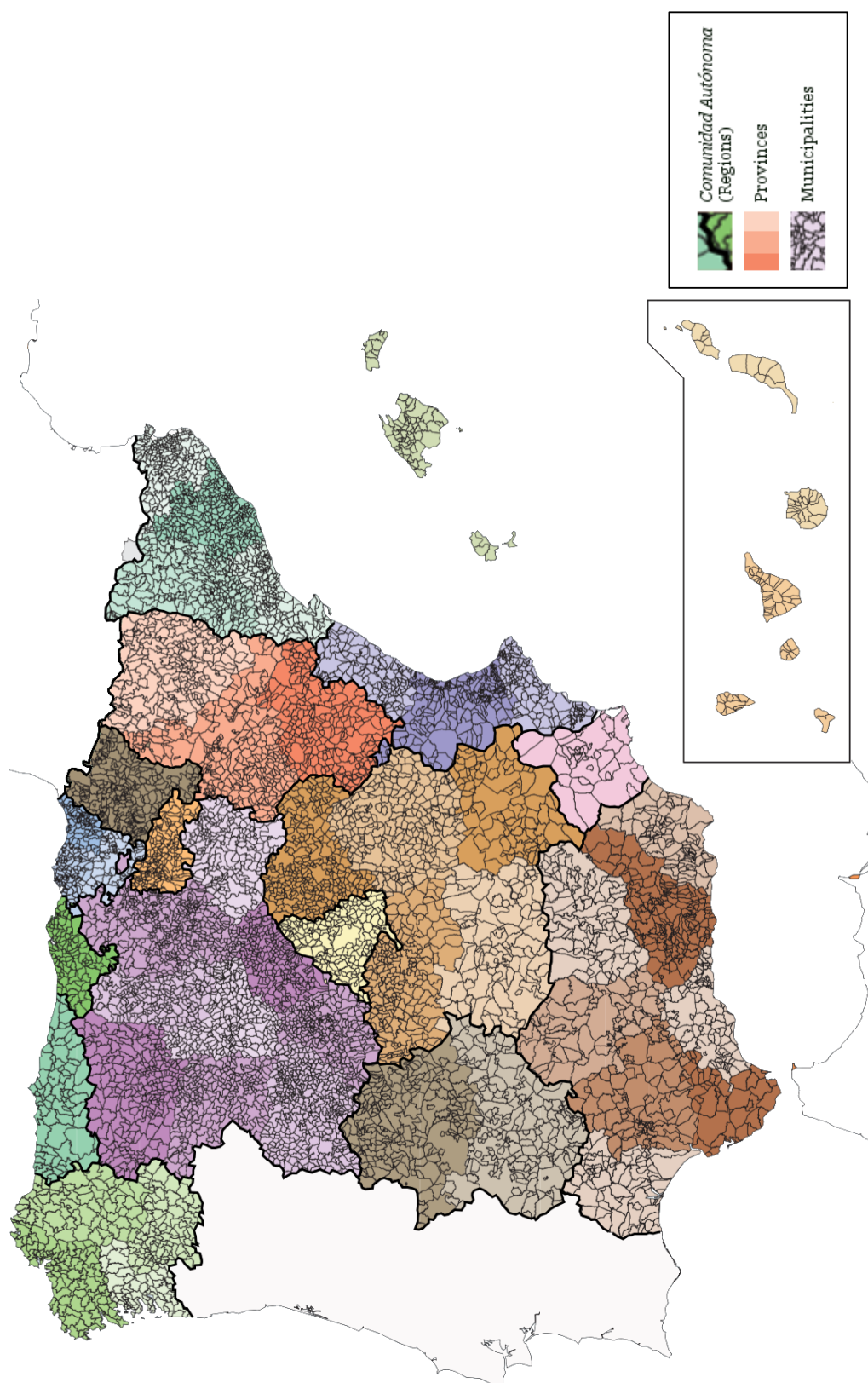
In Spain, urban governance is atomised across a landscape of petty elective dictatorships. A legacy of its Roman and medieval past, Spain counts an exceptionally large number of remarkably small municipalities. Overall, the Spanish territory is parcellised into 8,117 municipalities, 90% of which have less than 10,000 inhabitants. These are, on average, the smallest amongst Western countries (Benito et al., 2015:192). Moreover, as is also the case in other southern European countries (France, Italy, and Portugal), Spanish local governments are run by elected mayors who enjoy large amounts of executive power within their respective municipal corporations (the infamous '*strong-mayor form*').

In theory, Spanish law stipulates that the powers of local executives ought to be balanced out by high-ranking civil servants in charge of ensuring that the measures of local representatives are legally and financially sound. This is the bureaucratic triad formed by (1) *secretaries*, (2) *auditors*, and (3) *treasurers*: (1) *secretaries* certify the legality of local council decisions and provide legal advice to public representatives; (2) *auditors* examine the expenditure and income of local authorities; (3) *treasurers* organize all payments by the local councils, direct local tax levying, and provide custody of funds (García et al., 2013:624-627). In practice, however, over the decades this system of checks and balances has undergone a worrying process of erosion (Jiménez, 2009:259-260). Many of the positions reserved for these high-ranking bureaucrats have been left vacant, and their roles have passed on to unqualified or temporary clerical workers employed by the local civil service, rendering them dependent upon their controlees for their salary and working conditions. Moreover, the tasks of auditing and account execution are often not clearly delimited, so that sometimes the same worker may concentrate both roles despite an evident conflict of interest (accountants are supposed to monitor themselves). As if this were not enough, some local governments have also outsourced public management functions to external bodies, allowing them to keep administrative law at arm's length (García et al., 2013:628). The most resounding case is that of Marbella, epicentre of corruption in Costa del Sol, where between 1991-2006 the local government created a parallel administration of private companies and foundations, which was engrossed with handpicked friends and relatives until it became larger than the official bureaucracy itself. Ironically, these measures were justified with a neoliberal rhetoric of 'flexible managerialism' against the dead hand of the state.

The devolution of most planning functions to these petty elective dictatorships has buried the already peculiar practices of Spanish urbanism in further layers of obscurity. The main urban planning instrument in the country are the municipal plans drafted and approved by every local government. Municipal plans are a truly powerful institution in charge of structuring and redistributing the economic power of land. They confer upon local governments the power to classify land as fit for development and to estimate and fix the value of the resulting land plots (see chapter 4). Land denominations constitute an important mechanism of asset-price inflation, as a simple re-zoning to classify land as ‘developable’ is bound to increase its worth, and much more so in a context of booming home prices (Jiménez et al., 2014). Local authorities are also in charge of issuing building permits according to their municipal plans, and through the opaque practice of urbanistic agreements (*convenios urbanísticos*), they are also able to strike bilateral deals with developers in order to tailor amendments to the plan for them (García et al., 2013:623). In exchange, developers may agree to assume the costs of some local public facility, like building a municipal swimming pool or a sports centre. Prior to 2007, the procedure for signing these agreements was barely regulated. Negotiations would unfold without any minimum requirements for transparency. Thus, the content of these agreements was withheld from the public and sometimes from the municipal corporation itself.

Unsurprisingly, the highly discretionary nature of local power structures has encouraged speculative developers to build personal and financial ties with local councillors in order to tap into privileged information and political favours. In the midst of an anti-corruption operation in the city of Alicante, an intercepted conversation between Sonia Castedo, at the time Alicante’s urbanism councillor (later mayor of the city), and a powerful local developer captured this dynamic well. In a casual manner, the builder tells the planner that he will soon be dropping by her office to see if she can adjust the city plan: ‘[t]hree land plots [...] see if you can make them blue [i.e. change land designations], paint them blue for me’ (eldiariocv, 2014). However, the formation of clientelist networks around local strongmen has a long tradition. The lineage of these practices is personified in the Fabra family, several generations of which have controlled the provincial corporation of Castellón at different times (Valencia) (Martínez, 2012). Descending from a line of nineteenth-century *caciques* (see chapter 3), fascist bureaucrats, and conservative politicians, the latest Fabra, Carlos, a man notorious for his regular abuse of power, was recently imprisoned on grounds of tax evasion and has corruption charges pending.

FIG.20. TERRITORIAL SCALES OF THE SPANISH STATE



Source: Instituto Geográfico Nacional

5.2. *The Fever of Urban Entrepreneurialism*

After four decades of fascist centralism, the Constitution of 1978 created a highly decentralised state that transferred broad competences to newly established regional administrations (*comunidades autónomas*). The result was a multi-scalar apparatus formed by seventeen autonomous elected governments and parliaments assuming full competence over land-use planning legislation and over the provincial (*diputaciones*) and municipal corporations within their territories (see Fig.21 above). The impetus behind this schema was an attempt to weaken the grip of administrators inherited from the dictatorship by democratising local governance (Cardona, 2013:95). As discussed in the previous chapter, the process of devolution deepened in the mid-1980s, when the regional governments were granted jurisdiction over the public savings banks (*cajas de ahorros*) based in their territories, the main mortgage lenders in the country. This allowed regional governments to appoint the members of the *cajas*' executive boards, filling their ranks with representatives of political parties and trade unions relative to their electoral support. Originally non-profit institutions designed to provide mortgage lending to the working classes, by the late 1990s the *cajas* had become operationally equal to the banks and effectively acted as financial wings of their regional governments (see chapter 6).

With this equipment, the new scales of the state entered a dynamic of inter-urban and inter-regional competition for private capital flows: urban entrepreneurialism. To make their cities and regions attractive for investment, the different scales of the state resorted to strategies of 'local boosterism' to raise the profile of their localities. Valencia constitutes the most tragic example of this phenomenon: 'The idea, in the words of its leaders, was to "put Valencia on the map". And they succeeded. [...] Today, the city stands as a symbol of extravagance and public mismanagement' (Público, 2016). Valencia became notorious for hosting one-off grandiose events, like a Papal visit in 2006, but also for its conspicuous spending on spectacular buildings (Buck, 2017). *The City of Arts and Sciences*, an iconic complex of futuristic buildings with little practical use, became the flagship marketing device of city and region during the years of the bubble. Designed by local world-class architect Santiago Calatrava, its style perfectly encapsulates the reckless extravagance of these years. Subordinating all structural function to rhetorical purpose, in Calatrava's buildings 'organic metaphor trumps all'; they must 'billow, swoop, and spiral, because otherwise they wouldn't be eye-catching

as advertisements' (Hatherley, 2014).⁷⁹ The postcard priorities of the Valencian regional government become starkly clear when one compares the €1.3bn invested in *The City of Arts* with the prefab primary schools of its vicinity: prison-like structures prone to leaks and without heating (Serra, 2016).

The same 'landmark' function was performed by costly and unnecessary transport infrastructure. Indeed, without infrastructure 'the story of Spain's speculative expansion of settlement would be incomplete' (Marcinkoski, 2016:79). Deserted airports began sprouting in areas with low population density or in relative proximity to already existing ones (e.g. Ciudad Real, Huesca, Castellón). The central government was also complicit in this process, as the *Ministerio de Fomento* granted licenses for the construction of high-speed rail lines across rural areas for the benefit of less than ten passengers a day (Page, 2015). Despite the low demand, the length of Spain's high-speed rail network is today second only to China's – in *absolute* terms (Marcinkoski, 2016:82).

These processes of competitive 'place-building' were magnified by a buoyant real-estate market, particularly as property development constitutes an important source of finance for municipalities, making local governments an interested party in the bubble. As discussed in chapter 4, the constitution of 1978 granted local councils the power to exact a small portion of building rights from urbanising landowners (10-15%). Originally, these land levies were devised to combat hoarding and to facilitate the public provision of housing. However, during the years of fast land-price inflation, municipalities joined the speculative process themselves and turned the sale of these valuable land plots into a major source of revenue (Romero et al., 2012:470; Benito et al., 2015:198). Municipalities counted on other levies that strictly depended on urban development: fees on planning permits, a tax on construction projects, or a sales tax on the transactions of urban developable land (Jiménez, 2009:263-267). To this should be added the infrastructural expenses outsourced to developers via the aforementioned urbanistic agreements as well as the stimuli derived from an expanding construction industry and home-price inflation.

The procedure of urban development was usually the following (Benito et al., 2015:198-99; Burriel, 2008): (1) Constituting itself as an 'urbanising agent' (see

⁷⁹ Admittedly, 'while most "icon" buildings are demonstratively useless', Calatrava also happens to specialise in infrastructure, or rather, in 'making things that should be entirely functional utterly useless' (Hatherley, 2014; see also Cocotas, 2016). From Valencia to Venice, his bridges may be often dangerous to drive or walk across, but always spectacular to look at.

chapter 4), a construction company would present a spectacular project of enormous dimensions to the local government. Sometimes, large conglomerates were behind these urbanisers, though more often small construction companies formed ad-hoc for a specific project and dissolved thereafter. If the project happened to fall outside the scope of the current urban plan, the developer might have added to the project some infrastructure of public interest (e.g. a care home, a public swimming pool) in order to 'sweeten the deal'. (2) The proposal would be said to carry enormous benefits for the municipality, expanding the revenue of the local government and bringing general economic growth to the area. This suited the 'local boosterism' needs of municipal officials, as the project promised to act as a marketing device to attract further investors and to pander to local electorates. (3) Mobilising mechanisms legally available to municipalities (e.g. urbanistic agreements, partial modifications), the system of checks and balances was often wilfully neglected. Often, the approval of the project came attached to a bribe for the adjudicating authority and/or a graft on the profits rewarded to the developer (a 'kickback').

The processes gained speed as home-prices increased. Echoing the 'economic miracle' of the 1960s (see chapter 5), a 'boomtown mentality' swept across the country.⁸⁰ Massive changes in land denominations opened up vast areas of rural land to the production of high-rise buildings and row houses, re-zonings sometimes lobbied for by the farmers themselves. The small town of Seseña (Toledo), 'exemplar of the surrealism of the bubble', allowed a single developer (*El Pocero*, to whom I shall return to later) to build 13,000 homes on its outskirts (Domínguez, 2016). This feverish urge to build was particularly intense in beach-side localities, where there was a high demand for second homes and tourist facilities. The logic of this phenomenon is well captured by the words of the mayor of La Vilajoiosa, a small town off the coast of Alicante: 'Every town in our area is succeeding and everyone is growing rich. We cannot afford to stand still' (quoted in Burriel, 2008).

⁸⁰ As discussed in chapter 4, the property bubble began on the back of the Land Law of 1997-8. From 2001, the creation of the Euro accelerated home-price increases, primarily because it facilitated the pumping of credit into the already booming housing market, but also because it added a new urgency to the laundering of hidden treasures. At the turn of the millennium, pools of soon-to-be obsolete *pesetas* would surface to purchase hundreds of thousands of properties in cash, an invaluable storage of value (Galindo, 2002).

7.2. Second Vertex: The Construction Oligarchy

The greatest beneficiary of the opacity of urban governance has been the construction business, an industry with historically-grown ties to state power. Through clientelist transactions, these ties have become a major source of political accumulation, ensuring a great degree of commercial success for a few privileged actors. By the 2000s, these clientelist transactions mostly took on three different forms: contractual, urbanistic, and financial.

7.2.1. Anatomy of the Construction Industry

TABLE 3. BUSINESS STRUCTURE OF THE CONSTRUCTION INDUSTRY (2006)

Business Size	Number	% of Total
No employees (self-employed workers)	187,482	43.88%
Micro (1-9 employees)	184,527	43.19%
Small (10-49 employees)	49,724	11.64%
Medium (50-199 employees)	3,788	1.2%
Large (>200 employees)	378	0.09%

Source: Ministerio de Fomento.

A still shot of the construction industry at the peak of the bubble (2006) reveals a highly uneven business structure (Table 3). The immense majority of registered construction firms were either small or very small. Indeed, 98.7% of firms had less than 50 employees, a figure that includes a vast precariat of self-employed construction workers. During the property boom of the 2000s, this vast stretch of the sector was responsible for 55-60% of the total volume of construction business. Generally confined to a local range of action, it specialised in the construction of residential and non-residential buildings, only deriving 10-20% of its volume of business from civil engineering, a figure that most likely reflects the infrastructure attached to urbanisation projects (roads, streets, power lines, etc.) (see Fig.21 below). As a general rule, the smaller the company the more it tends to specialise in residential production. A business structure of this sort is common in times of heavy residential production. In the 1960s, for instance, heavy construction subsidies and the emergence of a

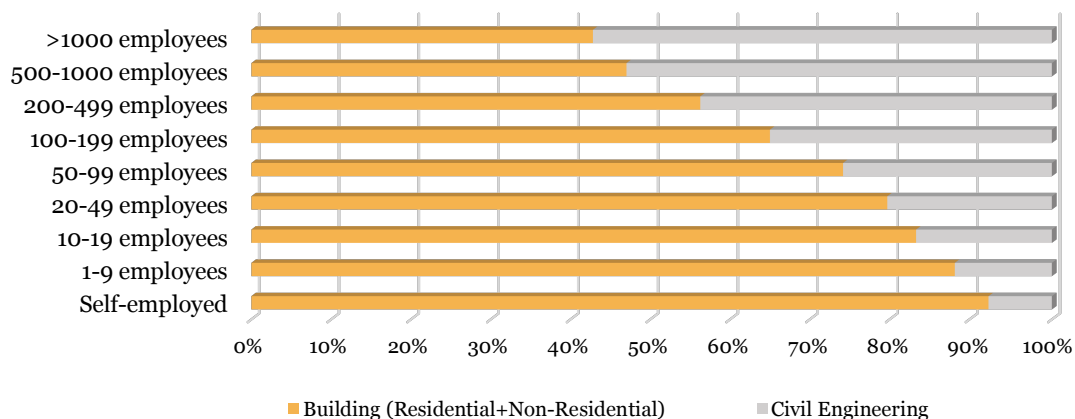
dynamic property market encouraged many landowners to set up small property development firms.

The remaining 1.3% of the business structure is made up of a small nobility of large and medium-sized companies with a long lineage in the sector and a broader geographical range of action. However, even this elite displays a great degree of stratification. In 2006, the vast majority were mid-sized companies employing between 50-199 workers (e.g. the construction divisions of conglomerates like *Cyopsa* or *Sorigué*) (Table 3). This 'lower nobility' was responsible for 20-25% of the total volume of business, and could derive up to 35% of its turnover from civil engineering operations (e.g. construction of railways or hydraulic infrastructure). Above this layer there was a tiny 'high nobility' of a 200-400 companies that absorbed 20% of the industry's total turnover. However, even this construction aristocracy was highly differentiated: out of the 378 companies in this range in 2006, 230 employed between 200-500 workers, 100 between 500-1,000 employees, and a small group of 48 *grandees* employed more than 1,000 (data from *Ministerio de Fomento*). Amongst these were the construction divisions of giant conglomerates, including the titanic 'Big Six' – *ACS*, *FCC*, *Ferrovial*, *Acciona*, *Sacyr-Vallehermoso* and *OHL* – all of which ranked amongst the top ten infrastructure contractors in the world in this decade (Galindo, 2003).

Unlike small firms, which tend to specialise in residential production, the industry's giants tend to be integrated into vast conglomerates that usually diversify their business model with urban service contracts (e.g. garbage collection, maintenance of street furniture). This pattern is the result of the counter-cyclical strategy devised by the titans to navigate the crisis of the 1970s, when the sector was struck by a slashing of public investment in civil engineering projects, as well as the abolition of the construction subsidies that had underpinned the residential boom of the previous decade (Galindo, 2003). This, in turn, was accompanied by an unstoppable process of capital concentration. The mergers started in the 1980s, accelerated in the 1990s – when many of these companies went public – and heated up into predatory takeovers in the 2000s. The most resounding case was the surprise takeover of Dragados, historically the largest construction company in the country, by ACS, the fourth largest, which assumed the throne instead (Gómez, 2002). A 2003 article in the economics section of *El País* noted this phenomenon: 'In the 1980s, it would have taken two dozen seats to gather the grandees of the construction industry around the same table. Today, six seats would be enough' (Galindo, 2003). In the years preceding the property

bubble, service contracts constituted half of the turnover of some of the largest companies in the construction sector. However, booming property prices lured them into the housing market. At the peak of the bubble, even the largest firms were deriving 40-50% of their turnover from residential construction.

FIG.21. CONSTRUCTION ACTIVITY PER COMPANY SIZE (2001-2007)



Source: Ministerio de Fomento.

Note: Official statistics define civil engineering as ‘the construction of bridges, tunnels, supply networks (water, gas, oil), etc; power lines, telecommunication lines; electric power plants, nuclear power stations; enclosure structures; highways, roads, railways, etc.; waterworks; as well as other specialised constructions’.

7.2.2. The Mechanisms of Political Accumulation

The relationship between the construction potentates and the political establishment is long, harking all the way back to the early decades of Franco’s dictatorship. The Big Six carry in their holdings companies that built their empires from the allocation of large-scale civil engineering projects in the aftermath of the Spanish Civil War (e.g. *Dragados*, *Huarte*, *Agromán*, *Entrecanales*, etc.). These companies made enormous profits from the forced labour of prisoners leased by the state, a practice common under Spanish fascism in all sorts of private developments until 1969 (CGT, 2013; Baquero, 2014; Vadillo, 2015).⁸¹ The most prominent example is the *Valle de los Caídos* (‘Valley of the Fallen’), a monumental war memorial that would later become Franco’s own sinister mausoleum. It is estimated that around 20,000 prisoners, many of them political, participated in the construction of this project alone, all under the command of prominent companies like *Banús* or *Huarte* (Vadillo, 2015). The most

⁸¹ Beyond civil engineering, forced labour was also prominent in mining (e.g. Duro, Babero), the metallurgical industries (e.g. Babcock & Wilcox, Astilleros de Cádiz, La Maquinista Terrestre) and in railway construction (e.g. Norte, MZA, Renfe) (Baquero, 2014).

powerful families of the sector (e.g. *Entrecanales*, *Del Pino*, *Koplowitz*) came to establish financial bonds or family ties with high-ranking officials of the dictatorship to secure valuable political favour. These dynasties have remained at the helm of some of the titans of the industry (respectively, *Acciona*, *Ferrovial*, and *FCC*). But the political links are also evident in the in the case of the lineages that built new fortunes after the fall of the dictatorship. This is the case *OHL*, long the fief of Juan Miguel Villar Mir, former finance minister during the latter years of the dictatorship and now replaced by his son of the same name (Vélez, 2016). This close relationship with the political establishment has successfully reproduced itself over time. Indeed, today, the executive boards of the construction potentates perform a function of class integration. Their seats are filled by a blend of old fascist officials and democratic politicians emerging from the revolving door of the state.

TABLE 4. TYPOLOGY OF CLIENTELIST TRANSACTIONS IN REAL ESTATE

<i>Type</i>	<i>Patron</i>	<i>Client</i>	<i>Mechanism</i>
Contractual	Local, regional, national government	Contractor firms	State absorption of additional costs in public contracts Rigging of design contests to award public contracts
Urbanistic	Local government	Private developers	Privileged information about re-zoning operations Tailored urban planning decisions
Financial	<i>Cajas de ahorros</i> (savings banks)	Contractors, developers, local/regional governments	Privileged access to credit

It is thus unsurprising that the construction industry has become the most frequent suspect in the tide of scandals of recent years. Indeed, the companies cited above figured very prominently in the aforementioned ‘Bárcenas papers’ (Carreño & Requena, 2013). The capture of institutional procedures has become normalised to the extent that these firms have come to regularly extract their surpluses from ‘political’

means that little have to do with ‘economic’ processes such as price competition or the quality of their services. These patterns of political accumulation can be grouped into three different forms of clientelist transactions: (1) *contractual*, (2) *urbanistic*, and (3) *financial*.

(1) *Contractual clientelism* involves distortions in the legal procedures to allocate public contracts. The marks of contractual clientelism are most evident in the acceptance of additional costs in public contracts. It is not uncommon for adjudicating authorities to assume the unforeseen costs of their contractors, a practice that can inflate several times over the original value of a project at the expense of the taxpayer. The most notorious examples are found in large-scale infrastructure contracts, such as Valencia’s *City of Arts and Sciences*, built by a consortium between *Acciona* and *Dragados* (now *ACS*). Though the original budget was €382m, it ended up costing the Valencian regional government €1.28bn (Serra, 2015). Another example is the underground routing of the M-30 highway, a project jointly carried out by *ACS* and *Ferrovial*. Originally estimated to be worth €1.7bn, the Madrid city council ended up assuming a final cost of €5.6bn (Garijo, 2017).

Another mechanism of contractual clientelism is the rigging of design contests. This refers to the ways in which supposedly competitive contests for the adjudication of public contracts are manipulated by insiders to favour specific companies. Often, this involves the manipulation of technical reports to arbitrarily inflate the score of a design project. An ongoing case investigates the role of the Aragonese regional government in the rigging of a design contest to adjudicate the development of an industrial park to *Acciona*. Email evidence suggests that the contest’s technical director had orders from his superiors to use discretionary criteria available to him to ‘readjust’ the score of *Acciona*’s offer (López-Fonseca & Montaña, 2014). The practice of rigging design contests often folds back on the payment of additional costs. The Aragonese government would later pay *Acciona* €150m for unforeseen costs, a sum that would have been, allegedly, used by the company to finance the kickbacks of the political officials involved in the rigging of the contest.

(2) By contrast, *urbanistic clientelism* revolves around the manipulation of the market potential of the land. As addressed in chapter 4, the peculiarities of Spanish urbanism give a great degree of power to the landowning class in the process of urban development, placing upon them the responsibility of costing all planned residential areas. In exchange, they are rewarded with an upward revalorisation of their land-

assets. Thus, when classifying land as fit for urban development, a local government estimates the worth of re-zoned land assets as if they had already been developed and fixes their value by law. As per the 'build-anywhere' law of 1997-8, the procedure to calculate the value of reclassified land assets is the so-called 'residual method'. The costs of production are subtracted from an estimate of the market value of the final real-estate asset (benchmarked at average market prices). As property prices boomed in the 2000s, the price differentials reaped from this procedure were enormous. Fernández (2005) has estimated that re-zoning operations would prompt land asset prices to escalate, on average, between 2000-6500%. Average land prices for rural greenfield sites stood at €2-6/m² in these years and an urban re-zoning taking average house prices into consideration could easily inflate the price of rural grounds to €120-130/m². This political mechanism of asset-price inflation – which, as I explained earlier, was instrumental in keeping land (and thus house) prices high during the years of the bubble – was rife with 'insider trading' in privileged information. Numerous corruption cases involve politicians rewarding friends and family (or even themselves) with a re-zoning of their land assets, or with a tip-off to developers of an impending reclassification so that they could purchase rural lands ahead of time (see ABC, 2006). This practice, however, long predates the bubble. Back in 1991, developer Francisco Hernando 'El Pocero' (the builder of the town of Seseña cited earlier), was sued by the civil servants of a small town in the outskirts of Madrid for pressuring them to reclassify a plot of rural land that he had purchased. Hernando, indignant at their refusal, made an admission of political accumulation if there ever was one: 'It is shameful that in this country a businessman ought to make *political investments*, as everyone knows I have done in the past, to make his company work' (quoted in SER, 2006, emphasis added).

In addition to these practices, clientelism in land-use planning also revolves around the capture of regulatory procedures to facilitate the approval of residential projects. This often comes attached to the aforementioned 'urbanistic agreements', through which local governments can legally tailor amendments to their local planning to specific developers; processes that are often accompanied by bribery. Another means to this end was the deliberate erosion of environmental controls. This occurred by purposefully underestimating or neglecting the environmental impact of residential projects. The high number of golf courses in provinces at risk of desertification makes this plainly evident (Ordóñez, 2016). In other cases, politicians went as far as violating special protection areas: in Caravaca de la Cruz (Murcia), the local council approved a residential development to house 8,000 people (as many as the town itself) in a wildlife

conservation zone (Serrano, 2014). The politicians involved in this operation are currently facing corruption charges for acting in connivance with the developers.

(3) Greasing the wheels of these practices were often forms of *financial clientelism*, which relies on corporate malpractice in public savings banks. As explained in the previous chapter, during the bubble, the country's 48 politically-controlled savings banks (*cajas de ahorros*), acted as reckless financiers of local and regional strategies of urban entrepreneurialism, resulting in 'a delirious cycle of development proposals, municipal approvals, and easy credit lubricating this urban transformation' (Marcinkoski, 2016:72). The re-zoning of greenfield sites for urban development would be sold to property developers who would then finance their building operations with loans from a *caja* run by the same councillors in charge of urban planning, or by their party friends. The same logic applies to grand infrastructural projects, where the *cajas* acted as the financial wings of their regional governments for various ruinous ventures. During the bubble, this conflict of interest was intrinsic to the process of urban speculation: 'Poorly run and poorly supervised, the cajas provided the rocket fuel for Spain's housing boom, dutifully funding one unviable project after another' (Buck, 2017).

Valencia's *Caja de Ahorros del Mediterráneo* (CAM), described as 'the worst of the worst' by the governor of the Bank of Spain in 2011, provides the starkest example (Biot, 2012). This *caja* would accompany its regional government in all sorts of extravagant projects (including the aforementioned *City of Arts and Sciences*). Corporate malpractice was rife. In 2010, with the crisis already in full force, they reported €244m in profits, only to admit €2.7 billion in losses one year later. A reflection of their unyielding loyalty, three days before the Bank of Spain stepped in and nationalised CAM, the institution loaned €200m to the Valencian regional government. This bond was rooted in criminal complicity: between 2004-2010, CAM loaned its own board members €161m in credits at very low interest (sometimes 0%), a practice that the regional government – the legal regulator of the savings bank – failed to flag up.

7.3. Third Vertex: The Kleptocratic Political Class

Though the political class inherited the clientelist nexus between the state and the construction industry from the Francoist regime, this dynamic mutated with the transition to an elective form of intra-elite competition. The result has been a pattern of political accumulation distinctive to liberal democracy, where the political class is immerse in a permanent electoral competition to gain or renew their access to the different scales of state power. This has been grossly neglected in the existing literature. Corruption around urban development was not a mere expression of the pressures of urban entrepreneurialism, but also of the dynamics of political competition to raise campaign finance from construction bribes.

7.3.1. The Electoral War Chest: The Basics of Election Spending Fraud

Over the last decade, the majority of political corruption cases have involved illicit payments not just to the public officials providing the political favours, but also to their political parties, revealing a strong connection between clientelist transactions and election spending fraud. In theory, Spanish political parties finance themselves through a system of public subsidies allocated to parties in proportion to the amount of votes and to the degree of representation they achieve (Jiménez & Villoria, 2012:12-14). This system was established in 1977 with the aim of supporting the country's nascent liberal democracy. However, it left a number of glaring loopholes when it came to private donations that legislators have been reluctant to close ever since. Indeed, the often blurred line between private contributions and outright bribery has allowed donations to become a major source of distortion in Spanish politics. Private donations were unregulated altogether until the mid-1980s. Jorge Verstrynge, general secretary of PP during this period, has described this regulatory vacuum in this period as 'the wild west': an institutional frontier in which business potentates were able to make regular cash 'donations' without any public control.

The first regulations were introduced in 1985 and 1987 in response to the first party finance scandal. Around that time, the ruling party (PSOE) was hit by the international ramifications of the 'Flick affair', a West German political scandal involving donations made by the Flick conglomerate to the foundations of several German political parties. Part of these monies, allegedly, ended up in the hands of PSOE (García, 1985). Following the affair, private contributions were capped at a certain amount per donor per year, and state contractors were banned from making these contributions due to

conflict of interest (Jiménez & Villoria, 2012:12). However, the practice of anonymous donations persisted, an opacity that allowed parties to split large donations into several unidentified contributions as well as to launder other illicit sources of finance. By the time anonymous donations were banned in 2007, they made up 95% of all private contributions to political parties.

The finances of political parties fall under the purview of the Court of Audit (*Tribunal de Cuentas*), an institution equipped with scarcely dissuasive sanctions and self-defeating legal technicalities (Bayona, 2017). Perhaps the most self-defeating is that a political party is not legally regarded as a single financial unit comprising all its different territorial organisations. This means that the accounts that parties submit to the Court do not automatically include party foundations, associated companies, or local party branches; a legal multiplicity that allows political parties to open back doors to their illicit sources of finance.

Another problem is the fact that different rules apply to party foundations with regard to private donations. Not only is there a higher cap on contributions, but foundations are also exempt from the rule that bans public contractors from donating to political parties as well as from the 'cooling-off' period, designed to avoid the arrival of delayed payments derived from clientelist transactions (Jiménez & Villoria, 2012:15-16). An example is the recent *Palau affair* afflicting the Catalan nationalist party *Convergència i Unió* (CiU), in which companies awarded with public contracts by the Catalan government made large contributions to the party's foundation undisclosed to the Court of Audit. In the 1980s, it was common for donors to commission generic reports to a shell company that would then funnel the payment into the party's coffers. This fraudulent practice was at the epicentre of the two main political finance scandals of the 90s: the *Naseiro affair* (1992), and the *Filesa affair* (1991-1997), which struck, respectively, the conservative PP and the social-democratic PSOE (Mercado, 2013; Heywood, 2007).

Given how rife local government is with clientelist transactions, the finances of local party branches are the most usual suspects of illicit activities, but these practices are also encouraged by the party superstructure. For instance, in 1999, PP passed its local branches in the Madrid region a power point presentation detailing how to camouflage electoral expenses (Urreiztieta, 2016). The instructions were to funnel the monies of private donations to ordinary accounts outside the purview of the Court of Audit, and

to subsequently use the funds to cost electoral expenses whilst forging their invoice description.

Indeed, in the years of the bubble, when the bulk of this illicit political finance was concentrated in the construction sector, many local candidates ran electoral campaigns boosted by the bribes of developers, something that reinforced conflicts of interest in urban planning and created patterns of competition between parties over criminal sources of finance. Hence why the local urban planning office (*concejalía de urbanismo*) became a highly strategic institution in Spanish politics. This issue was openly addressed in a recent televised interview involving several formerly high-ranking political figures (see Évole, 2016). Discussing the problem of widespread political corruption in urban development, Josep Piqué, a man who occupied several cabinet positions at the turn of the millennium and is now vice-president of *OHL*, made the following observation: “In local councils, where there is a strong tradition of forming coalition governments, the junior partner tends to always demand—”. “The urban planning office”, Esperanza Aguirre, president of the Madrid region between 2003-2012, finishes the sentence. Piqué smiles sardonically and concludes, “What a coincidence”. Josep Borrell, Minister of Public Works in the early 90s, adds shortly after: “...it seems evident that the more a party holds power at the local level, the more these [corrupt] phenomena proliferate, sometimes not as isolated cases, but as organised party structures involving many people at once”.

The exact extent to which these practices were extended during the years of the bubble is a question that is bound to remain unanswered, not least because the bottomless pit of scandals keeps getting deeper by the day. But one indicator should capture our imagination: the vast amount of €500 notes in circulation in these years. This denomination, with little practical everyday use for most people, is standard in tax dodging, money laundering, and bribing operations. Spain gathered 26% of the Eurozone’s total at the peak of the bubble, when the notes’ value came to constitute 80% of all the cash money in circulation (Lázaro, 2016).

7.3.2. Kleptocracy: Illicit Party Finance as Form of Political Accumulation

The shortcomings of the party finance system outlined above facilitated the embedding of special interests into the structures of political parties wielding state power, particularly in those areas where parties hold safe majorities. This encouraged the formation of criminal networks to provide a bridge between a party and its illicit

donors. These networks, generally run by a mixture of high-ranking party members and businesspeople, acted *systematically* as intermediators of clientelist transactions, collecting tolls on the channels of influence that they facilitated – usually 3% of the profits of the rewarded company. Part of this graft, in turn, was then funnelled into the coffers of political parties to boost their electoral expenses. This created a perverse structure of incentives, according to which *entire party structures derived illicit electoral finance from inflating the profits of the construction industry*. In turn, parties derived a competitive edge over their counterparts from this criminal political economy, as it enabled higher campaign spending. The result was a logic of *political accumulation* that, though inherited from long-held clientelist ties to the construction industry, adopted a form distinct to liberal democracy.

The foremost example of a political organisation corroded by this phenomenon is none other than the conservative *Partido Popular (PP)*. Some of the earliest evidence of these practices surfaced during the *Naseiro affair*, named after the party's chief treasurer at the time. The scandal was unearthed in 1992 through intercepted phone conversations between the party's head treasurers and local Valencian politicians (Gallero, 2016:137-148; Ugarte, 2015). The conversations openly discussed the bribes that the party received in exchange for the modification of urban plans and the allocation of street cleaning contracts, as well as the existence of internal power struggles to control the illicit finances of the party. The interlocutors involved in the conversations suggest that, already then, high-ranking members of the party's national superstructure acted in collusion with corrupt politicians at the local and regional levels. The political favours transacted bear the unmistakable marks of the construction industry, allowing us to tentatively date the entry of construction firms into the party's criminal finances to the late 1980s. In a highly controversial decision, the court ruled out the intercepted evidence and rejected the case.

Everything points to the *continuity, extension, and systematisation* of these practices until their resurfacing in the scandals of the 2010s. Police reports openly speak of an uninterrupted continuum between the practices of the *Naseiro* scandal and the more recent *Bárcenas affair*, which, as addressed in the opening of the chapter, has revealed the existence of an entire parallel bookkeeping system dedicated to the management of a slush fund from the very apex of the party's hierarchy (Gallero, 2016:145). The infamous *Bárcenas papers* detail how bribes came in regularly from representatives of mid- and large-sized construction firms, as well as how the party put these illicit cash pools to use: under-the-counter bonuses to the leadership and systematic election

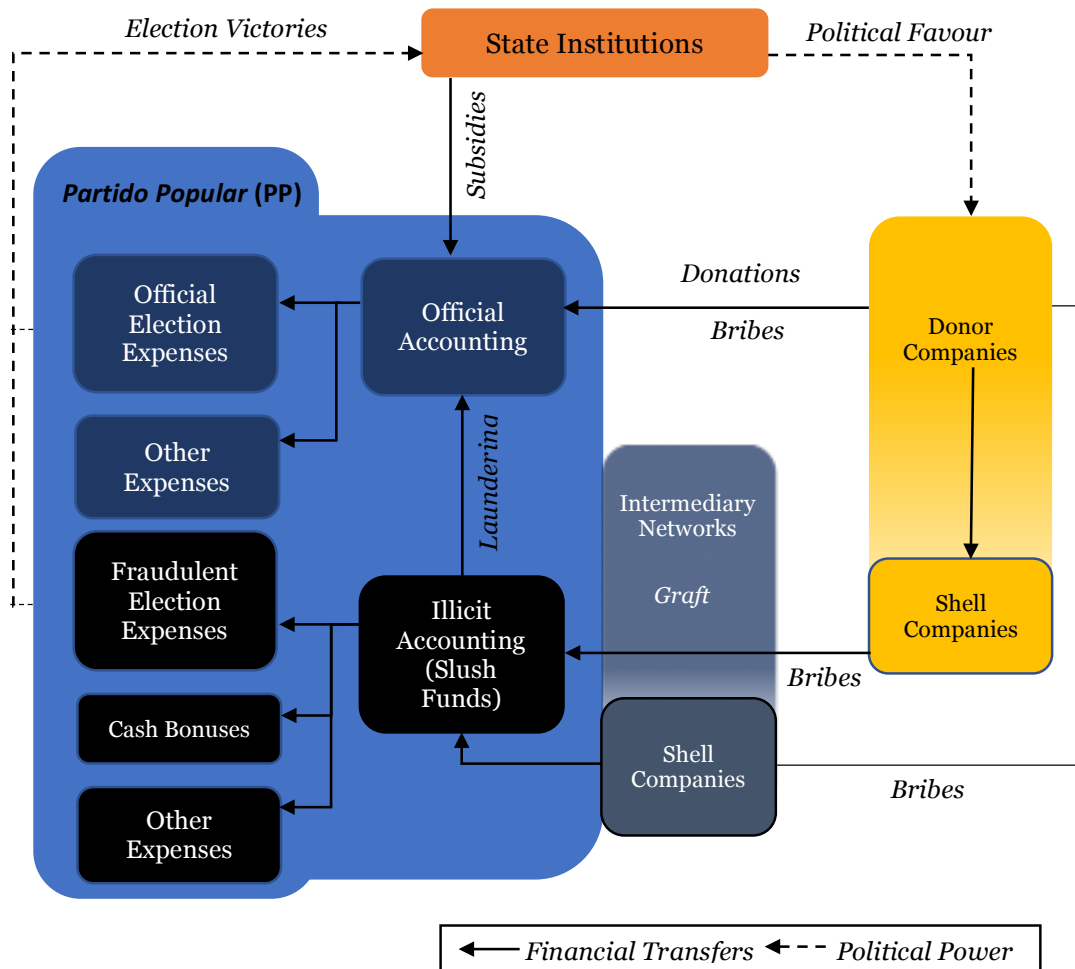
spending fraud (Romero, 2013).⁸² Luis Bárcenas, chief treasurer of the party between 1992-2013, has claimed that the party's slush fund was set up by his predecessors in the 1980s, and that he merely inherited its command. Though one can only take his word for this affirmation, it remains a remarkable coincidence that the first entry in Bárcenas' records is the exact same date of Naseiro's arrest.

Twenty years after the Naseiro affair, the number of illegal networks mediating between PP and its illicit donors seems to have grown considerably. Over the course of the last decade, successive police operations have uncovered the existence of multiple intermediary criminal networks in regions where the party held comfortable majorities. The most famous is the '*Gürtel network*', a criminal organisation formed by businessmen and high-ranking party members who operated a number of shell companies in Valencia, Madrid, and Galicia. The network cultivated relationships with party members in government positions and used their front companies to disguise the party's election campaign activities with false invoices (El Mundo, 2010b). In exchange, the network demanded political favours, either for their own companies or for the companies that had contracted their brokering services, from which they would exact part of their profits. The process was similar in the '*Púnica network*', another criminal organisation operating in Madrid, Murcia, and the Balearic Islands, headed by a high-ranking member of the Madrid regional government (El Confidencial, 2015). In this case, it was the favoured companies themselves that provided shell companies to disguise the party's electoral expenses (Parera et al., 2017). In any case, the principle seems to have always been the same: election spending fraud and clientelist transactions were two sides of the same coin (Fig.22).

It appears that some of these criminal intermediaries operated like bribe-collecting cartels. In Madrid, it has been reported that at least three coordinated networks coexisted in syndicate. They designated their territories, alternated tasks, and even covered services for one another (Castillo, 2013:135-140). In Valencia, on the contrary, it appears that there were two competing networks, each one headed by a different high-ranking member of the regional party. These rivalled with one another and engaged in a 'turf war' using the party's factional struggles as proxy (Nieto, 2015).

⁸² Investigative journalist Marisa Gallero (2016:109) documents the existence of under-the-counter bonuses as early as 1986 but claims that the practice only became systematic in 1994.

FIG.22. RECONSTRUCTION OF THE ILLICIT FINANCE SYSTEM OF THE PP



There is worrying evidence that these practices were systematically carried out throughout the party's regional and local branches, to the point that they fused with the party's financial apparatus. During his testimony in 2014, Luis Bárcenas claimed that 'PP ran a slush fund in every region and every province for electoral expenses [...] everybody wanted to make donations during elections' (quoted in Martialay, 2014). So far, subsequent police investigations have corroborated the existence of regional slush funds in Madrid and La Rioja, as well as in the Basque province of Vizcaya (Campos, 2017).

In the midst of the '*Taula* affair', an ongoing scandal relating to the illicit finances of the Valencian branch of the party (PPCV), the leader of an intermediary network admitted in court to having facilitated hundreds of clientelist transactions (EFE, 2016). During his testimony, he claimed to have exacted 2-3% on the profits of the companies rewarded in every transaction, part of which went straight into the party's coffers,

where they were stored in five different slush funds in the Valencian region alone. Allegedly, there would have been three slush funds dedicated to finance from the three provincial corporations of the region, presumably to then be distributed amongst local branches in their respective territories (Zafra, 2016). One slush fund would have been entirely dedicated to the city of Valencia, the region's capital. One final slush fund would have stood above these at the regional level, feeding off from the other four. Twelve businessmen have already corroborated payments of this sort to the PPCV (eldiariocv, 2017). Witnesses to the *Taula affair* have also claimed that the Valencian regional slush fund fed into the one managed by Bárcenas at the national level. This suggests the existence of a pyramid structure of criminal finance embedded into the party's official finances.

In a recent televised interview, PP's former treasurer in the Galicia region, a man also convicted for being the second-in-command in the *Gürtel* network, claimed that 65% of party funds came from illicit sources, and described these practices as 'normalised in all parties since the 1980s' (El Confidencial, 2013). To what extent this is true remains unclear. However, evidence of similar practices in other parties is not lacking. Ongoing investigations into the mysterious offshore fortune of Jordi Pujol, former long-term president of Catalonia (1978-2003), suggest the existence of similar criminal structures in his party *Convergència i Unió*. There is increasingly evidence that companies would have systematically paid 3% of their profits to the party in exchange for the allocation of public contracts. In this case, it seems that part of this graft would have also gone directly to relatives of Pujol, adding a '*famiglia*' dimension to the picture (CatalunyaPlural.cat, 2017).⁸³ There is also plenty of evidence that the social-democratic *Partido Socialista* (PSOE), was engaging in identical practices until the 1990s. For example, the following headline story opened the newspaper El País in April 1991 (Missé, 1991):

On Wednesday, the Minister for Public Works, Josep Borrell, convened the CEOs of the largest construction companies in his office to urge them, "on behalf of the President and myself", to stop making illicit payments to political parties in exchange for construction contracts. [...] Borrell was adamant and insisted that if any of the companies gathered there received illicit proposals "in

⁸³ Before a parliamentary inquiry into this issue, Pujol snapped the following (rather cryptic) response, which seemed to suggest that other parties were involved in similar practices: 'if you continue lopping the branch of a tree, so to speak, the entire branch will fall apart eventually, and it will drop all the bird nests it carries. One after another, all branches shall fall! And in the end it will have been the fault of everyone who has practiced this form of politics!' (La Vanguardia, 2014).

the name of PSOE" [his party] they should communicate this to him directly. [...] Sources from the construction sector admit that the payment of bribes, between 2% and 4% of the value of the project, is a common practice in the allocation of public contracts. This corruption extended to every level of the state administration: national, regional, and municipal. [...] In the sector, frequent comments are made about the differential costs of graft across local and regional governments.⁸⁴

However, despite having been involved in all too familiar clientelist transactions at the local and regional level during the years of the bubble, evidence of a system of criminal finance as comprehensive as that of PP has yet to emerge. In the meantime, the official accounts that parties report to the Court of Audit suggest that between 80-95% of their finances come from public subsidies (Jiménez & Villoria, 2012).

Conclusion

After a decade of almost uninterrupted scandals, a long-awaited sentence arrived in May 2018:

Spain's ruling party has suffered a major blow after one of its former treasurers [Bárcenas] was jailed for 33 years for fraud and money laundering, and the party itself was found to have profited from an illegal kickbacks-for-contracts scheme, in a case that has become emblematic of political corruption in the country (Jones, 2018).

In their ruling, the judges hearing the case confirmed the existence of an illicit bookkeeping system at the heart of PP, describing it as 'an accounting and finance structure that ran in parallel with the official one and which has been in use since at least 1989' (quoted in *ibid.*). The sentence was clear: this was 'an effective system of institutional corruption by manipulating the awarding of central, regional and local government contracts'. Contra to what a certain section of the Spanish literature has suggested, this 'system of institutionalised corruption' was not a mere extra-legal ramification of the pressures of urban entrepreneurialism. Rather, it was a specific form of class rule, one inherited from a previous historical epoch (i.e. the Francoist

⁸⁴ The sector's potentates clearly did not take heed of Borrell's words. In 1994, *El País* broke an identical story: 'Yesterday, Josep Borrell asked a group of construction businessmen, for the second time in three years, to stop bribing political parties for the allocation of contracts' (*El País*, 1994).

period) but adapted to more recent structures of political accumulation (i.e. federal liberal democracy), where patterns of elite competition occurred through electoral contests for access to decentralised nodes of state power.

Through this prism, the patterns of political corruption that dominated the Spanish property bubble appear not as a mere political add-on to an otherwise purely economic logic, but, rather, as the basic substance of a three-way system of clientelist dynamics underpinning the governance over the built environment: an ‘iron triangle of real estate’. The first vertex of this triangle is the state, and particularly the local state, which in Spain holds most decision-making power over the built environment. The great degree of discretionary power held by local executives, coupled with the pressures of urban entrepreneurialism, has encouraged mayors to strike opaque deals with the construction industry over urban development projects. The construction industry forms the second vertex, and in particular a small layer of medium- and large-sized conglomerates who have a long history of clientelist connections with the political class – a relationship that harks back to the reconstruction tasks after the Spanish Civil War. In return for bringing investment into their areas, these firms received crucial political favours from local and regional governments: distortions in the legal procedures to allocate public contracts (contractual clientelism); the manipulation of the market potential of the land (urbanistic clientelism); or privileged access to finance through the *cajas de ahorro* (financial clientelism). But these transactions were often organised outside of the local and regional scales of the state. Indeed, as the sentence quoted above stipulates, they were orchestrated by political parties which exacted a small portion of the profits that their officials ensured to the construction industry, funnelling these monies into their electoral war chests. In turn, the ability to boost their electoral expenditures through graft encouraged political officials to set in motion grand projects of urban and infrastructural development. Altogether, these political dynamics served to magnify the effects of the property bubble to unprecedented heights.

This chapter has addressed the central research question of the thesis (*why did the Spanish path into the crisis manifest as two seemingly contradictory processes – as a house-price bubble and as a wave of residential overproduction?*) by reinforcing a central argument of my historicist narrative: i.e. that the peculiarities of the Spanish pathway into the crash need to be understood as a product of the patterns of political accumulation of the post-Franco period. In many ways, this chapter expands on the argument of the previous, which has demonstrated how the financing of urban

entrepreneurialism by the *cajas de ahorro* was an expression of the patterns of political accumulation specific to a historical period. Indeed, this chapter should be seen as an exposition of how these patterns of political accumulation imbricated the dynamics of Spanish urban entrepreneurialism beyond the reach of the *cajas*.

Conclusion

‘[S]everal thousand people gathered in *Puerta del Sol* on Wednesday as mass demonstrations against unemployment and the government’s social policies swelled across the country for the fourth day’ (El País, 2011). The anti-austerity protests in the emblematic central square of Madrid inaugurated what the international press came to know as the ‘*indignado*’ (indignant) movement. Emulating the ongoing Arab Spring, demonstrators began to hold public assemblies several times a day to take democracy into their own hands. The exercise was spontaneously mimicked in cities across the country. Resisting one eviction after another, the crowds refused to leave for weeks. The movement was led by a youth in revolt: ‘the young took to the streets and suddenly every political party grew old’ (El País, 2015). This was the first generation born and raised under a liberal democracy, one that had come of age only to realise that they would do worse than their parents. The memorable yellow t-shirts of the group *Juventud Sin Futuro* (Youth Without a Future) captured the feeling with a proudly defiant short sentence: ‘no home, no job, no pension, no fear’ (eldiario.es, 2017).

Beneath the surface of general indignation, the mottos of the *Sol* protests expressed a host of different grievances (Robledo, 2013). Due to the ongoing local elections, the most prominent was the disaffection towards an undemocratic political elite (‘They don’t represent us’). But equally important were the chants against generalised precarity (‘We lack a house so we stay in the square’) and scandalous levels of corruption (‘It’s not a crisis, it’s a swindle’). These mottos reflected the emergence of a new political consciousness at the everyday level, one in which representative politics, corruption, and precarity were experienced as different facets of a single system. By now, the ‘system’ in question already has a name: ‘the regime of 1978’, a term that collectively designates the politics of the post-Franco constitutional settlement (Grijelmo, 2017; Navarro, 2017; Costantini, 2017).

In many ways, this thesis was also motivated by this experience, and its central contribution speaks directly to it. It has provided a novel interpretation of the Spanish crisis centred around the historicity of the political dynamics that caused it, be they in the form of crystallised past political conflicts (*layered struggle*), collective struggles over the shape of institutions (*social conflict*), or daily renegotiations of social structures (*the everyday*). This final concluding chapter will bring the thesis to a close in three sections. The first (8.1) will provide a summary of the thesis, highlighting the connections between its constituting parts. The second (8.2) will restate the

contributions of the thesis to the literature. The third (8.3) will examine post-crisis political developments through the prism of the thesis and will sketch out some potential questions for further research in light of these developments.

8.1. Summary of the Thesis

The thesis has opened with an exploration of existing interpretations of the Spanish crash (chapter 1), identifying three broad accounts and teasing out the role of the political – the power struggle to give shape to social structures – in their narratives. (1) *The immaturity narrative*: neoliberal accounts tend to represent the Spanish crash as a product of domestic political dysfunctionalities (e.g. corruption in the savings banks system) (Cuñat & Garicano, 2009; Garicano, 2012; Royo, 2014; JP Morgan, 2013). In turn, this narrative has spawned two critical responses that have deflected accusations of political dysfunctionality to macro-structural causes. (2) *The core-periphery narrative*: on the one hand, a collection of Marxist, post-Keynesian, and institutionalist studies has displaced the causes of the crisis ‘upward’, to the external economic imbalances of the Eurozone. According to this narrative, the Spanish crisis should be read in terms of the country’s ‘peripheral’ position in the currency union. Forced into sustained deficits by the common monetary policy, peripheral countries like Spain have had to borrow to finance their growth, inflating bubbles in the process (Lucarelli, 2011; Becker and Jäger, 2012; Lapavitsas et al., 2012; Stockhammer, 2016). (3) *The spatial fix narrative*: on the other hand, a group of studies inspired by the work of Marxist geographer David Harvey have instead displaced the causes of the crisis ‘inward’, to the internal logic of capital accumulation. According to this narrative, the boom and bust of Spanish capitalism is a product of a generic law of capitalism: whenever overaccumulation mounts in the manufacturing economy, capital seeks a ‘fix’ in the built environment to restore profitability, resulting in the inflation of housing bubbles like the Spanish (López & Rodríguez, 2010; Delgado, 2011; Coq-Huelva, 2013; Charnock et al., 2014).

As we have seen, the political is forced into an awkward position in all three narratives. (1) In the case of the *immaturity narrative*, the main problem is a flawed representation of ‘the political’ as something external and inherently distortive to an otherwise balanced market economy. This misses how, for good *and* for worse, power struggles (historical, social, and at the level of the everyday) are inherent to the dynamics of the market itself. Indeed, political factors (corruption included) were as much responsible for the crash as they were for the boom that preceded it. (2) In the

case of the *core-periphery narrative*, the problem is, rather, a tendency to derive conclusions about the Spanish economy from the European plane, without a substantial treatment of the specificities of the Spanish economy. Hollowing out the Spanish experience from any history and political agency of its own, it blurs important features of the picture, such as the fact that the Spanish bubble began before the establishment of the Eurozone, or the unique wave of residential overproduction that accompanied the Spanish boom. (3) In the case of the *spatial fix narrative*, the problem is that it starts out from the assumption that capitalism can be thought of as a closed system with laws of its own. This inevitably explains away the role of historical power struggles, as specific economic phenomena can simply be deduced from generic structural laws of causation. This creates a tunnel vision through which historical evidence tends to be chosen on an ad-hoc basis, while uncomfortable factors are simply ignored (e.g. the role of housing shortages in the shaping of the housing market).

In turning to macro-structural explanations, both of these critical narratives extricate themselves from the political, which ends up surrendered to the caricatured representations of the immaturity narrative. In response to this, in this thesis I have set myself the task of reclaiming the political away from immaturity accounts, concentrating on the pitfalls of critical narratives in order to make room for an alternative account of Marxist inspiration.

To do so, I have first delved into questions of method (chapter 2). This chapter started out by digging up the philosophical root of the problem ('structuralism' or structural determinism) and by examining its relationship to the Marxist tradition. Having identified the problem, the chapter has sought an alternative foundation in the methodological pronouncements of Michel Foucault (1991) and E.P. Thompson (2013), whose work speaks to the need to ground explanations of social phenomena in historically-situated social practices rather than in abstract laws (historicism). Building upon the insights of these authors, the chapter has sought a more detailed procedural guidance in the tradition of political Marxism, an approach that provides the backbone to my historicist method.

Political Marxism is a strand of Marxist thought emerging out of the historical-sociological debates on the origin of capitalism (Brenner, 1976, 1977, 1985; Wood, 1981, 2002, 2016; Teschke, 2003; Blackledge, 2008; Post, 2011; Knafo & Teschke, 2017). It defines itself against 'structural' Marxism, which it accuses of an ahistorical bent that refuses human actors any creative agency of their own. Instead, 'political'

Marxism insists that social structures – the formal and informal rules that regulate social relations – should not be treated as if they had a life of their own, but rather as they actually confront people who must act in relation to them, often by struggling to reshape them. In short, this perspective sees history as the *sedimentation of political agencies*, as opposed to the unfolding of a providential logic. To complement the methods of political Marxism, the chapter concluded by borrowing the concepts of non-Marxist traditions to better capture this sedimentation: historical institutionalism to track the evolution of material practices (Steinmo & Thelen, 1998; Pierson et al., 2002; Streeck & Thelen, 2005), and performativity to grasp the evolution of immaterial discourses (Butler, 2010; Konings, 2015; Cooper and Konings, 2016).

Putting these methodological insights into practice, chapter 3 proceeded to outline a new narrative of the Spanish crash, one firmly grounded in the historical specificity of this experience rather than in macro-structural laws of causation. This narrative was based on an analysis of what political Marxism calls ‘*social-property relations*’ – the institutions mediating relations of property and domination in a given historical context (Brenner, 1976; Wood, 1981). From this emerged a vision of the Spanish path into the crisis as a culmination of two historical processes, both driven by political struggle: (1) the maturation of an ‘apparatus’ of residential provision to address a near-perennial housing deficit, and (2) the evolution of patterns of ‘political accumulation’ forming a clientelist nexus between public officials and the propertied classes.

(1) The residential ‘apparatus’ designates the ensemble of material practices and immaterial discourses that have been mobilised over time to address the historical problem of housing shortages. This problem was inaugurated with the advent of liberal social-property relations, which crystallised the right of the propertied classes to profit from the spatial needs of the majority. In the countryside, this manifested as shrinking access to farmland, whereas in the cities it manifested as an acute housing deficit. In response to changing political circumstances (e.g. outbursts of social unrest, declining electoral capacity), a number of institutional ‘fixes’ were laid down over time to address the tensions caused by liberal social-property relations, though generally in line with the interests of the propertied oligarchies that controlled the state. Over time, the *layering of these political struggles* crystallised in a number of institutions that worked around the problems of liberal social-property relations, slowly maturing into an apparatus of residential provision that has given shape to the contemporary dynamics of the Spanish housing market. The marks of this historical process are patent in the peculiarities of Spanish land-use planning mechanisms: the dearth of

social housing and the dominance of home-ownership; the widespread access to mortgage finance; and the power that the real-estate industry commands in Spanish politics. Altogether, by the turn of the millennium, this process had culminated in a financialised capitalist residential apparatus distinctly geared towards housing speculation and residential overproduction.

(2) 'Political accumulation' denotes patterns of elite competition by non-commercial means. The dynamics of political accumulation mediating the bond between public officials and the propertied classes has had a strong impact on the governance of liberal social-property relations. In the nineteenth century, this bond served to regulate mechanics of electoral fraud and to solidify the structural power of a landed oligarchy. Political parties would agree upon the victors in advance and local potentates, generally landowners, would mobilise their influence to rig the vote on the ground. In the middle decades of the twentieth century, this clientelist nexus was reorganised around the authoritarian bureaucracy of the Francoist regime and a new class of property developers, a dynamic that involved trading political favours (e.g. tailored land designations, licenses, etc.) for bribes and accelerated property development. From the late 1970s, a new liberal democracy inherited these clientelist patterns, putting them to use in a context of electoral competition over the nodes of a federal state. Political parties began to exchange political favour with developers in exchange for bribes, usually in the form of a small percentage of their profits ('kickbacks'). These monies mostly went to their electoral war chests, allowing them to outflank rival parties with illicit campaign finance. The mobilisation of these power flows was crucial during the bubble, as it enabled developers to tap into tailored decisions over the built environment that ensured them commercial success, while allowing their political patrons to reproduce their power over the state. Had it not been for this complicity, it is unlikely that the Spanish bubble would have been accompanied by a wave of residential (and infrastructural) overproduction – the most distinct and destructive aspect of the Spanish crisis. As in the nineteenth century, the clientelist nexus between parties and developers should be seen as a distinct form of social struggle. It served to buttress a neoliberal consensus on the political agenda as it excluded the populace from crucial decisions over the allocation of public resources.

Having sketched out the contours of this alternative narrative, the remaining chapters of the thesis fleshed out several of its facets with detailed historical studies of different aspects of the Spanish housing market. The first two chapters are the ones most concerned with the historical specificity of the Spanish apparatus of residential

provision. Their purpose was to provide an account of Spanish residential capitalism grounded in the historicity of its own political dynamics, showing that the Spanish experience is irreducible to macro-structural mechanics.

Chapter 4 explored the roots of residential overproduction during the bubble with a genealogy of the layered struggles giving shape to Spanish urban planning practices. The story began in the nineteenth century, when in response to the demographic pressures of a nascent urban society, Spain developed planning practices without parallel in Europe. Perhaps the most important of these was a system of land designations that valued urban land according to its *potential* value (i.e. as if it had already been developed). This encouraged a considerable degree of hoarding, as speculators would purchase greenfield sites and taunt the state to expropriate them so that they could reap exorbitant profits from compensations. This system had lasting path-dependent effects, particularly given the reluctance of the propertied oligarchies to change it, prompting instead a number of different ‘fixes’ to work around the problem of residential supply that it occasioned. After some failed experiments with mass public housing, in the middle of the twentieth century the Francoist state opted for heavy subsidies to build-to-sell operations in an attempt to countervail the hoarding tendencies of urban landowners. These measures, largely driven by the needs of an expanding manufacturing base, spawned a capitalist industry of property development which had not existed before, as well as a massive shift in tenure to homeownership. The resulting dynamic housing market plunged into a crisis in the 1970s, when the policy of construction subsidies was abandoned because of its inflationary effects. The result was a return of land hoarding in urban areas, resuming the housing deficit that had been the norm until a couple of decades earlier.

However, in the context of the new dynamism of the property market, combined with new techniques of mortgage securitisation and the influx of European investment, the return of housing shortages translated into financial bubbles in the second half of the 1980s. The resulting high cost of housing became a political issue in the 1990s, when the different scales of the state began to experiment with land-use planning legislation in order to incentivise property development, under the assumption that a greater housing supply would bring down prices. The ‘build-anywhere law’ of 1997-8 was the culmination of these experiments. The law introduced the innovative figure of the ‘urbaniser’, an empowered property developer capable of planning and expropriating landowners directly, and a new system of land valuations that pegged the potential value of land plots to house prices on the market. Rather than bringing prices down,

the law prompted just the opposite: an upward spiral in housing and land prices, accompanied by an unprecedented (and unparalleled) wave of residential overproduction in anticipation of further increases – the housing bubble of the 2000s.

Chapter 5 traced this story from the angle of *the everyday*, exploring how the bubble was enabled by a culture of housing conducive to mass speculation. Throughout the second half of the twentieth century, homeownership was nurtured by the state in an attempt to incentivise property development, as building-to-sell operations ensured faster returns to developers. Between 1950 and 1980, public discourses exalted the value of property as a long-term investment for the benefit of future generations, something that easily appealed to the peasant values of a quickly urbanising rural population. In the process, homeownership became deeply engrained as a ‘normal’ cultural expectation, whereas alternative forms of tenure (e.g. rent, social housing) became a sign of marginalisation. This was accompanied by the signification of reckless urbanisation as a necessary feature of socioeconomic progress. This association was first drawn during the ‘economic miracle’ of the 1960s, but it resurfaced with force in the construction boom of the 2000s, facilitating the acquiescence of the public to the dynamics of the bubble.

The widespread commodification of housing and the acquiescence to reckless urbanisation acted as contextual preconditions for the bubble. However, the most determinant cultural factor in the emergence of a ‘common sense’ of mass speculation arrived around the turn of the millennium. At the time, real-estate fairs, financial providers, and economic pundits began to disseminate the idea that booming house prices were here to stay, encouraging households to take large mortgage loans to purchase homes in anticipation of their revaluation. This allowed a whole layer of homeowners to become ‘semi-proletarianised’, as borrowing against a rising home equity became a means to complement one’s income. The spread of these dynamics widened the electoral constituency of the bubble, giving people a stake in the financialised residential apparatus. This resulted in a sea change in public discourse around 2004, when the political class ceased to promise affordable homes and instead began to ride the wave of house-price increases as a means of demand-management.

The subsequent two chapters of the thesis turn to different aspects of the residential apparatus, examining them from the perspective of political accumulation. This served to continue to flesh out the historicity of the Spanish housing market, but also to showcase that the political is immanent to ‘the economic’, disturbing the claim that the

Spanish economy should be seen as a self-reproducing circuit with laws of its own, or as a self-equilibrating entity that was disturbed by political factors external to it.

Chapter 6 delved into the history of Spanish finance, addressing the neoliberal argument that the crash was prompted by external political distortion of the savings banks system (*cajas de ahorro*). This premise has been challenged by showing how politics, and in particular *social conflict*, has been a feature immanent to the history of Spanish finance, both for good *and* for worse. To do so, the chapter has traced the evolution of modern financial institutions, and their real-estate lending practices, through the prism of the patterns of political accumulation since the nineteenth century. Then, the savings banks and a semi-public bank were created to ensure the dissemination of mortgage credit, a system heavily skewed toward the interests of urban and rural landowners who had privileged access to finance. The Francoist dictatorship erected a heavily statist financial system to challenge these oligarchies. However, in reality it merely redirected the power of financial elites through the structures of its opaque bureaucracy, where state and finance developed a symbiotic relationship.

With the banking crisis of the late 1970s and the advent of a liberal democracy, the new state opted for empowering the old savings banks to put them at the service of the federal scales of the state. The *cajas*, traditionally confined to mortgage lending operations, were then equipped with the same operational capacities as the commercial banks. At the same time, the boards of the *cajas* were filled with handpicked representatives of political parties and unions in an effort to strengthen the new-born regional democracies. Over time, the *cajas* developed a strong (and often corrupt) relationship with their local and regional governments, financing their strategies of inter-urban competition. In other words, they became subsumed under the dynamics of political accumulation distinct to the new federal democratic state. The *cajas* deepened their specialisation in real-estate lending, outcompeting the banks and pushing them onto international markets. Their dominance of these business segments during the bubble (particularly mortgage lending) was their eventual downfall.

Chapter 7 has zoomed into the years of the bubble, dissecting the three-way clientelist relationship between the local state, the real-estate industry, and political parties. In doing so, it has challenged the assumption that the bubble should be seen as the product of a purely 'economic' logic, for the patterns of *social struggle* within the

political class under a federal liberal democracy (i.e. political accumulation) were equally responsible for the inflation of the bubble. After the fall of the Francoist dictatorship, broad competences over the built environment were devolved to a multiplicity of local and regional democracies. As these scales of the state entered into a dynamic of competition with one another for private investment (i.e. urban entrepreneurialism), they began to strike opaque deals with developers. By then, the real estate industry had already enjoyed a long relationship with the state – a relationship nurtured by the Francoist regime. These clientelist patterns were inherited by the liberal democracy that succeeded the dictatorship; however, they were relaunched in a different form. In a context of electoral competition, political parties began to weave their own clientelist networks in order to raise illicit electoral finance so that they could compete with one another. In return for their favours, construction firms would reward their political patrons with a small percentage of their profits (usually a kickback of 3%). This way, political corruption became a driving force of the bubble, as the competitive pressures within the political class became an incentive to magnify processes of accumulation over the built environment.

Altogether, this mosaic of historical chapters presents an innovative perspective of the Spanish path into the crisis, one grounded in the concreteness of the political – the power struggle to give shape to social structures – rather than in abstract structural logics or idealised visions of ‘the market’.

8.2. Thesis Contributions

The main contribution of the thesis is the novel narrative of the Spanish crash outlined above. This narrative poses a challenge to the existing literature insofar as it disturbs the structuralism of the *core-periphery* and *spatial fix narratives*, giving primacy to the historical specificity of the Spanish experience at the expense of macro-structural laws of causation. At the same time, it centres the story around political dynamics without falling into the pitfalls of the *immaturity narrative*. Rather than seeing the political as something extrinsic to, and inherently distortive of, ‘the market’, it represents it as intrinsic to and inherently constitutive of it. The thesis has drawn inspiration from the tradition of political Marxism to advance a different account of the crisis, one that explains the run-up to the crash in terms of the historicity of political dynamics.

In turn, this new perspective allows political economists to patch up some glaring gaps in the existing literature on the Spanish crisis:

(1) Rather than explaining away the most distinctive aspect of the Spanish case (i.e. the destructive wave of residential overproduction that accompanied the bubble), I historicise this irregularity and centre my narrative of the crisis around it.

(2) At the same time, I give new prominence to the politics of housing, and in particular to long-lasting social conflicts over housing shortages. This is a central feature of my narrative that until now has been absent from the existing political economy literature.

(3) I also cast light upon the importance of corruption in the inflation of the bubble. Until now, existing narratives of the Spanish crisis either assumed that political corruption thwarted Spanish economic development, or simply reduced it to a function of an economic imperative. By contrast, I present political corruption as a feature intrinsic to a specific historical pattern of class domination.

The analysis of political corruption advanced in this thesis is also important for a different reason: given the recent nature of the campaign finance scandals afflicting Spanish political parties, these patterns of political corruption remain uncharted empirical territory. The analysis of the patterns of contemporary clientelism thus transcends the bounds of political economy and makes this thesis of potential interest to specialist fields, such as corruption studies.

Beyond the specialist literature on Spain, the narrative advanced by this thesis is also of great relevance to the ongoing debate on the causes of the Euro crisis. Centred around the historical specificity of this experience, the domestic focus of my narrative poses a frontal challenge to dominant political economy accounts, which tend to read the Spanish crisis as a mere appendage to the broader crisis of the European Monetary Union (Lapavitsas et al., 2012; Becker & Jäger, 2012; Bagnai, 2013; Gambarotto & Solari, 2015; Baccaro & Tober, 2017). In historicising the Spanish path towards the crisis in its own terms, I have demonstrated that Spain had a crisis of its own, one that cannot simply be reduced to an external economic imbalance. While this does not deny that the EMU constituted an important contextual factor in the boom and bust of Spanish residential capitalism, it does show that the EMU remains an *insufficient* explanation for the crisis, opening the door for similar interpretations of other peripheral crises. At the same time, I have used the thesis to challenge neoliberal

accounts of the crisis, which so far have championed domestic interpretations of the crisis (The Economist, 2010; JP Morgan, 2013; Stiglitz, 2014). Centred around the internal ‘political’ distortions of an otherwise perfect market equilibrium, these interpretations focus on how the tendency of politicians ‘to play bankers’ caused the crash, but they neglect how political factors (corruption included) were equally responsible for the boom that preceded the crisis (Rivera quoted in Picas & Agustina, 2015).

The final contribution of the thesis is the development of a political Marxist framework to apply to contemporary political economy. A major source of inspiration in this thesis, political Marxism developed in opposition to structural Marxism, a strand within the Marxist tradition that explains social phenomena by privileging the internal laws of social structures – particularly ‘economic’ ones. The result is a highly deterministic bent that tends to obscure political agency and historicity from view, a problem that I have traced in existing accounts of the Spanish crisis. Instead, political Marxism reasserts the need to understand human agents as living and creating subjects, privileging agency and contingency at the expense of structural laws of causation. The problem is that, so far, political Marxists have been mostly concerned with historical-sociological themes (Brenner, 1976; Cominel, 1991; Wood, 2002a, 2002b), and whenever they have brought their approach to bear on contemporary political economy they have either done so in disguise (e.g. Knafo, 2009), or they have relapsed into the structuralism they once criticised (e.g. Brenner, 2006; for a discussion see Knafo & Teschke, 2017). Instead, I have deployed the insights of political Marxism for a case of interest to contemporary political economy while seeking to stay true to its ‘historicist’ promise, fleshing out a method for others who may wish to do so as well.

8.3. Beyond the Crash: Notes for Further Research

This final section will briefly examine some of the most important political developments in Spain over the last decade, analysing them through the prism of my conclusions and raising questions for further research.

Perhaps the most evident sign that the post-Franco settlement has exhausted itself is the break-up of the two-party system that had sustained this state project since the 1980s. This process began with the radicalisation of the left-wing electorate in the wake of the *indignado* protests, which prompted a low turnout in the general elections of

November 2011. The collapse of PSOE's share of the vote was such that PP was handed a massive landslide majority despite small electoral gains (Cué, 2012). The conservatives then used their majority to redouble the cuts and pass a harsh labour reform, prompting an enormous backlash on the streets. In 2012, a permanent detachment of riot police was deployed around the Spanish parliament, which became fenced off from the public: a perfect visual metaphor for the gulf that had opened up between the public and the political elite (eldiario.es, 2013). The high point of unrest was the gigantic 'march for dignity' of 2014, which demanded 'bread, work, and roof', and culminated in a night of rioting in Madrid (BBC, 2014). Shortly after, the radical left-wing party *Podemos* was born, taking over half of PSOE's former electorate in a short period of time (Cruz, 2015).

When the *Bárcenas* affair broke out, Prime Minister Rajoy refused to resign and opted for finishing his mandate without offering a convincing explanation as to why his party's treasurer needed a parallel bookkeeping system to manage a large volume of bribes (Granados, 2013). But even more outrageous for the PP electorate was his passivity with regards to Catalonia, where a series of jurisdictional tensions culminated in the Catalan government organising a unilateral referendum of secession. This resulted in the emergence of a direct competitor at a national scale: the liberal unionist party *Ciudadanos*, which styled itself as 'the sensible change' in opposition to *Podemos*' radicalism (Rivera & Garicano, 2015). In light of this, the general elections of 2015 delivered an unprecedented scenario (later confirmed by the re-elections of 2016): a four-party system divided between the 'old' politics of PP and PSOE, and the 'new' politics of *Podemos* and *Ciudadanos* (Garea, 2015).

In the meantime, the ruins of the Spanish residential apparatus have become a major political battleground. After 2011, the *indignado* movement melted into a myriad of activist groups. In particular, it swelled the ranks of *Plataforma de Afectados por la Hipoteca* (PAH), the radical housing activists whose staple practices included sabotaging evictions; squatting vacant building blocks to house the dispossessed; and organising mobs to name and shame politicians and banks (20Minutos, 2013). In February 2013, PAH activists submitted 1.4 million signatures to parliament demanding a public legislative debate on a number of housing measures: the development of public rental housing; a moratorium on all ongoing eviction procedures; and, most controversially, the introduction of limited liability on mortgage debts with retroactive effect (*dación en pago*) (RTVE, 2013). However, the PP-controlled parliament at the time simply reformulated the document and passed a

watered-down version of PAH's demands, one that, amidst concerns about the potential harm to financial institutions, reduced the prospect of limited liability to a bare minimum and removed its retroactive provision (PAH, 2013). In the end, PAH simply opted for fighting evictions by capturing the structures of the local state: in 2015 PAH's charismatic spokeswoman, Ada Colau, was elected mayor of Barcelona (Blanchar, 2018).

The main ongoing political battle over housing social-property relations revolves around the boom in rent prices after 2014, a process that has renewed fears of a housing bubble amongst the Spanish commentariat (Letón, 2017; Estévez, 2017). This is not the case. Current patterns of speculation are fundamentally different to those of the 2000s: they do not seek self-reinforcing asset-price increases, but rather turn cheap rentals into undercover hotels. Interest in the rental sector is driven by the spread of platforms like *AirBnB*, a website enabling people to lease out their spare rooms to tourists, and which real-estate investors have not hesitated to use – illegally – on an industrial scale (Sanabria, 2018). The advance of these dynamics has brought a saturation of Spanish city centres by low-cost tourism, igniting a new source of grievance for urban dwellers in these areas, who can no longer afford their rents (Rafael, 2018). In regions still ruled by PP (e.g Madrid), the party has demonstrated a greater preference for its speculative revenues: e.g. by selling off what little remains of the public rental stock to hedge funds, allowing them to force out the tenants and turn the buildings into *AirBnB* farms (Pérez, 2018). In regions where the local elections of 2015 brought coalitions of left-wing activists to power – such as in Colau's Barcelona – ongoing initiatives include greater regulations for *AirBnB*, rent caps, and an expansion of the public housing stock (del Castillo, 2017; Blanchar, 2018).

These political rifts demonstrate that the collapse of Spanish residential capitalism has fractured the 'regime of 1978' on at least three fronts, all of which raise questions for further research:

(1) The implosion of Spanish residential capitalism has disabled the *financialised apparatus of residential provision* that had previously offset the precariousness of wage-earners with the prospect of home-price revalorisations. This has severed the bond between the political class and a dispossessed class of homeowners, either because they are no longer 'semi-proletarians' or because they have been evicted outright. This has unravelled the neoliberal consensus of previous decades, opening a cycle of unrest and ideological soul-searching in Spanish society, particularly amongst

a downgraded middle stratum. Will the age-old phenomenon of housing shortages return, or will the financialised residential apparatus be rebooted in the mid-term? If the latter is not possible, will the interests of speculators prevail over the demands of the electorate (e.g. affordable housing)? Or will it be the other way around?

(2) The exposure of the clientelist nexus binding the real-estate industry and the political class has distorted traditional patterns of *political accumulation*. The revelation of these practices has placed the ‘old’ political parties (PP, PSOE, and the Catalan CiU) in a difficult position, as it has spawned competitors that make the continuation of these practices difficult and the deflection of these rivals through ‘old’ methods of campaign finance risky. The new parties – particularly *Podemos* – have already pushed the old out of the most ‘lucrative’ municipal governments (e.g. Madrid, Barcelona). Thus, social forces previously excluded from the state are now attaining executive power, bringing onto the agenda issues that the regime of ‘78 had excluded (e.g. regional self-determination), or left to drift away (e.g. the right to housing in the Spanish constitution). But if the systems of political accumulation of the past are now disabled for good, what will this mean for the clientelist nexus between the political class and the propertied? Will this nexus reconstitute itself around a new residential apparatus? Or will its failure to do so open up room to roll back liberal social property-relations (e.g. a rise in public rental housing)?

(3) The collapse of a model of growth based on house-price speculation and overproduction of the built environment has eroded *a major source of revenue of the local and regional scales of the state*, prompting a crisis in the Spanish system of regional finance. This has coupled already existing jurisdictional grievances between the central state and the Catalan government, which, combined with an eagerness by CiU to deflect their own corruption scandals and with the uncompromising attitude of the PP, have detonated a full-blown territorial crisis over Catalan self-determination. The result was the dramatic scenes of October 2017, when Spanish gendarmes assaulted several polling stations in Barcelona and yanked away the ballot boxes by force (Noguer, 2017). For many, the federal pact of 1978 is now irreparably broken, raising the prospect of a constitutional assembly in the mid-term. But if a new constitutional settlement is indeed on the horizon, will the old elites succeed in insulating themselves from popular unrest (e.g. by introducing a majoritarian electoral system)? Or will the latest wave of social conflict leave a lasting imprint on the structures of the new state?

Though this thesis provides a historical perspective to chart the path of subsequent developments in the Spanish housing market, the outcome of this impasse will be ultimately decided by political struggles that are already in motion. In the final analysis, what comes out of this critical juncture will be decided by people making their own history – even if not under conditions of their own making.

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Appendix

Appendix A. The Ruins of Spanish Residential Capitalism

As addressed in chapters 4 and 7, one of the key innovations of the ‘build-anywhere law’ was the introduction of the figure of the ‘urbaniser’ (*agente urbanizador*). Essentially an property developer empowered with semi-public right, urbanisers had a special license to enact their own plans of urban redevelopment provided that they costed themselves the necessary land expropriations and urban infrastructure (e.g. street lighting, roads, sidewalks, etc.). Once this was complete, urbanisers automatically received the housing plots that resulted from their urbanisation projects, highly lucrative land-assets in a context of rising housing prices. But when housing prices began to turn downward, many of these projects left behind vast stretches of perfectly functional infrastructure without any homes to cater.

The following pictures are of one of such cases in Almassora (Castellón). The incomplete project is about 1km. long and four blocks deep. The proximity to the Mediterranean seafront and the immediacy of farmland makes it an archetypical site of a speculative re-zoning during the years of the bubble.

FIG. A1. AERIAL VIEW OF THE DEVELOPMENT



Source: Google Maps

FIG. A2. GHOST STREETS: THE RUINS ON THE GROUND



In all likelihood, what happened was that the municipal government approved a developer's project to turn nearby orange tree fields into beach-side properties. As it is evident in the pictures, the site has all the infrastructure necessary for urban living. There are roads, sidewalks, street lighting, bins, even playparks and basketball courts (typically the result of an 'urbanistic agreement' struck between the local government and the developer). What is missing are the dwellings themselves, suggesting that the house-price bubble burst before the 'urbaniser' in question could cash in what they were truly after – home property. In the meantime, the maintenance of these ghost streets is costed by the local government.

The few houses that stand are a number of vandalised condominiums in the eastern edge of the development (Fig.A3). One can freely walk through these ruins, which have been ransacked from anything of value: toilets bowls have been stolen, window and door frames have been smashed out of their place, etc.

FIG. A3. RANSACKED CONDOMINIUMS



Photo taken by Yannick Nehemiah Antonio Harrison